

Legislative Audit Division

State of Montana



Report to the Legislature

March 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2003

Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act Amendments of 1996 and OMB Circular A-133. It contains the auditor's reports on Montana's Basic Financial Statements and Schedules of Expenditures of Federal Awards for the fiscal years ended June 30, 2002, and 2003, as well as reports on internal controls and compliance, the Schedule of Findings and Questioned Costs, the Corrective Action Plan, and the Summary Schedule of Prior Audit Findings.

STATE DOCUMENTS CENTER

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
PO Box 200802
Helena MT 59620-0802
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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2003

Montana Single Audit Report

Members of the audit staff involved in this audit were Pearl Allen, Danielle Gamradt, Geri Hoffman, Hollie Koehler, Jim Manning, Alexa O'Dell, Jennifer Solem, and Joyce Weber.



LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

March 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2003. This document contains the independent auditor's reports on the state of Montana's Basic Financial Statements and Schedules of Expenditures of Federal Awards for the fiscal years ended June 30, 2002, and 2003. It also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations, a Schedule of Findings and Questioned Costs, a Corrective Action Plan, and a Summary Schedule of Prior Audit Findings. The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

The audit disclosed certain questioned costs and deficiencies, which are summarized in the Schedule of Findings and Questioned Costs in this document. Agency management has responded to the audit findings, and the responses are included in the Corrective Action Plan prepared by the Office of Budget and Program Planning. Findings previously reported in the state of Montana's Single Audit Report for the two fiscal years ended June 30, 2001, that would be reported under OMB Circular A-133 are included in the Summary Schedule of Prior Audit Findings, which was also prepared by the Office of Budget and Program Planning.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

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FY03 Financial Section

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated November 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

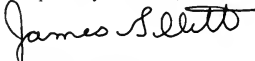
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted

other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", written in a cursive style.

James Gillett, CPA
Deputy Legislative Auditor

November 28, 2003

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2003, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents .10 and 1.64 percent, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

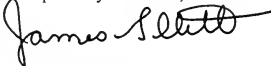
statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages C-1 through C-8 and C-82 through C-84, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have issued our report dated November 28, 2003, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report, on page A-1, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

November 28, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2003 by \$4.3 billion (reported as net assets) compared with \$2.9 billion at the end of fiscal year 2002. Of this amount, \$196 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$643.3 million compared with \$653.7 million at fiscal year 2002.

Fund Highlights

As of the close of fiscal year 2003, the State's governmental funds reported combined ending fund balances of \$2.2 billion compared with \$2.1 billion at fiscal year 2002. Of this amount, \$572.4 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$1.66 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$43.1 million compared with \$81.3 million in fiscal year 2002, which is a decrease of \$38.2 million (or 47 percent).

Long-term Debt

The State's total long-term debt obligations for governmental activities decreased from \$336.6 million in fiscal year 2002 to \$330.8 million (or 1.7 percent) in fiscal year 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements* and *combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assists Montana's small businesses and local governments in obtaining long-term fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are – the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal Service Fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$4.3 billion at the end of fiscal year 2003. Net assets of the governmental activities increased \$1.3 billion (or 49.8 percent) and business-type activities had a \$2.8 million (or 1.2 percent) decrease. The Montana Department of Transportation added the retroactive highway infrastructure to the state accounting system during fiscal year 2003.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets As of Fiscal Year Ended June 30 (expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2003	2002	2003	2002	2003
Current and other assets	\$2,627,061	\$2,733,511	\$309,293	\$326,525	\$2,936,354	\$3,060,036
Capital assets	1,038,746	2,225,327	14,658	10,195	1,053,404	2,235,522
Total assets	3,665,807	4,958,838	323,951	336,720	3,989,758	5,295,558
Long-term liabilities	356,517	369,306	14,890	10,010	371,407	379,316
Other liabilities	613,027	545,689	75,632	96,107	688,659	641,796
Total liabilities	969,544	914,995	90,522	106,117	1,060,066	1,021,112
Invested in capital assets, net of related debt	814,026	2,049,489	12,496	9,084	826,522	2,058,573
Restricted	1,742,193	1,817,193	203,710	202,268	1,945,903	2,019,461
Unrestricted	140,044	177,161	17,223	19,251	157,267	196,412
Total net assets	\$2,696,263	\$4,043,843	\$233,429	\$230,603	\$2,929,692	\$4,274,446

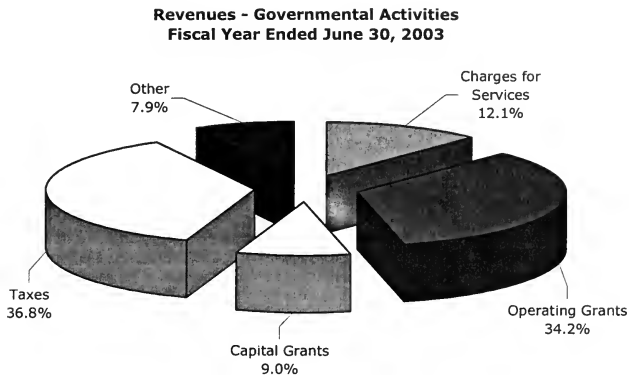
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

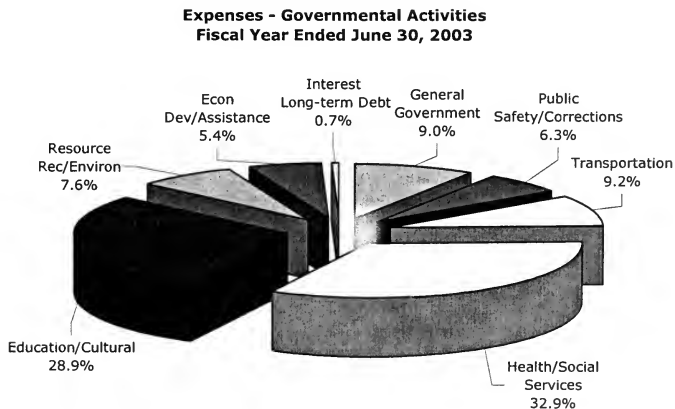
	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2003	2002	2003	2002	2003
Revenues:						
Program revenues						
Charges for services	\$ 364,614	\$ 415,033	\$189,771	\$206,233	\$ 554,385	\$ 621,266
Operating grants	1,080,374	1,170,703	29,335	10,442	1,109,709	1,181,145
Capital grants	280,489	308,021	602	510	281,091	308,531
General revenues						
Taxes	1,238,151	1,260,398	12,907	13,650	1,251,058	1,274,048
Other	207,193	267,080	17,419	21,778	224,612	288,858
Total revenues	<u>3,170,821</u>	<u>3,421,235</u>	<u>250,034</u>	<u>252,613</u>	<u>3,420,855</u>	<u>3,673,848</u>
Expenses:						
General government	248,089	280,740	-	-	248,089	280,740
Public safety/corrections	205,983	194,885	-	-	205,983	194,885
Transportation	169,282	286,181	-	-	169,282	286,181
Health/social services	1,086,012	1,023,893	-	-	1,086,012	1,023,893
Educational/cultural	845,324	899,575	-	-	845,324	899,575
Resource/rec/envirom	108,642	234,848	-	-	108,642	234,848
Econ dev/assistance	164,761	169,270	-	-	164,761	169,270
Interest on long-term debt	22,763	19,910	-	-	22,763	19,910
Unemployment Insurance	-	-	83,944	92,639	83,944	92,639
Liquor Stores	-	-	38,074	40,097	38,074	40,097
State Lottery	-	-	26,585	27,320	26,585	27,320
Economic Dev Bonds	-	-	3,251	2,426	3,251	2,426
Hail Insurance	-	-	2,045	2,029	2,045	2,029
Gen Govt Services	-	-	11,134	14,177	11,134	14,177
Prison Funds	-	-	5,444	4,515	5,444	4,515
MUS Group Insurance	-	-	34,594	35,906	34,594	35,906
Total expenses	<u>2,850,856</u>	<u>3,109,302</u>	<u>205,071</u>	<u>219,109</u>	<u>3,055,927</u>	<u>3,328,411</u>
Increase (decrease) in net assets before transfers	319,965	311,933	44,963	33,504	364,928	345,437
Transfers	26,756	32,366	(26,756)	(32,366)	-	-
Change in net assets	346,721	344,299	18,207	1,138	364,928	345,437
Net assets, beg of year (restated)	2,349,542	3,699,544	215,222	229,465	2,564,764	3,929,009
Net assets, end of year	<u>\$2,696,263</u>	<u>\$4,043,843</u>	<u>\$233,429</u>	<u>\$230,603</u>	<u>\$2,929,692</u>	<u>\$4,274,446</u>

Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year:



The following chart depicts expenses of the governmental activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As the State completed the year, its governmental funds reported fund balances of \$2.2 billion. Of this total amount, \$572.4 million, or 26%, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending as it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$43.065 million. Total fund balance diminished during the fiscal year by \$39.6 million, primarily because of lower corporation and property tax collections and interest rates.

General Fund Budgetary Highlights

Differences between the original budget and the final budget, which were the result of reductions imposed by two Legislative special sessions held in June and August 2002, amounted to \$78.9 million. The most significant budget reductions are listed below:

1. Office of Public Instruction was assessed a \$6.8 million budget reduction in its K-12 Education programs.
2. Montana University System was assessed a reduction of \$13 million in its fiscal year 2003 budget.
3. Department of Public Health and Human Services received a \$12.1 million budget reduction in its fiscal year 2003 budget.
4. Economic development appropriations were reduced by \$2.6 million in fiscal year 2003.
5. All General Funded agencies received an across the board reduction and a hiring freeze in the August 2002 special session that totaled \$6.1 million in budget reductions.
6. Department of Corrections was assessed a \$2.3 million budget reduction in its fiscal year 2003 budget.
7. Funding switches to replace General Fund with other funds totaled \$18.5 million.

General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 7.6 percent from fiscal year 2002 to fiscal year 2003. Revenues from various sources for fiscal year 2003, and the amount and percentage of increases and decreases in relation to prior year revenues, are shown in the following table (amounts in thousands):

Revenue Source	Amount	2003 Percent of Total	Increase (Decrease) from 2002	Percent Increase (Decrease)
Licenses/permits	\$ 210,611	6.2%	\$ 8,121	4.0%
Taxes	1,250,181	36.7	20,568	1.7
Chg srv/fines/forfeits/settle	157,939	4.6	(14,387)	(8.3)
Investment earnings	204,406	6.0	58,422	40.0
Securities lending income	1,950	.1	(2,508)	(56.3)
Sales doc/merch/property	13,104	.4	(2,467)	(15.8)
Rentals/leases/royalties	28,324	.8	3,886	15.9
Contributions/premiums	6,933	.2	839	13.8
Grants/contracts/donations	24,560	.7	3,696	17.7
Federal	1,454,165	42.6	114,314	8.5
Federal indir cost rcvly	33,883	1.0	31,122	1,127.2
Other revenues	24,044	.7	19,585	439.2
Total revenues	\$3,410,100	100.0	\$241,191	

An explanation of significant changes by revenue source follows:

Taxes – The increase in revenues was primarily due to 1) a \$13 million increase in individual income tax receipts; 2) a \$24.3 million decrease in corporation tax receipts; 3) a \$3.3 million increase in property tax receipts; 4) a \$15.4 million increase in natural resource tax; 5) a \$2.1 million increase in video gaming tax; 6) a \$3.2 million increase in insurance premium tax; and 7) a \$5.4 million increase in cigarette/tobacco tax.

Securities Lending Income – The decrease in revenue was due to the lower interest rates in fiscal year 2003.

Federal – The increase in revenue was primarily due to 1) a \$28.5 million increase in highway construction funds; 2) a \$13.1 million increase in Fish, Wildlife and Park federal funds; 3) A \$33 million increase in unemployment funds; and 4) \$25 million from the Jobs and Growth Tax Relief Reconciliation Act of 2003.

Federal Indirect Cost Recoveries – The increase in revenue is due to a change in the Federal Highway Act, which now permits the State Department of Transportation to recover indirect costs from the federal government. This change was partially implemented in fiscal year 2002, and completed in fiscal year 2003.

Other Revenues – The increase in revenue is primarily due to the transfer of \$20.2 million from the State Fund (Old) to the General Fund as a result of the 2003 Legislature eliminating the 10 percent excess reserve requirement.

Total expenditures for all general governmental functions increased 4.3 percent from fiscal year 2002 to fiscal year 2003. Expenditures by function for fiscal year 2003, and the amount and percentage of increases or decreases in relation to the prior year amounts, are shown in the following table:

Expenditure Function	Amount (in thousands)	2003 Percent of Total	Increase (Decrease) from 2002	Percent Increase (Decrease)
General government	\$ 239,707	7.2%	\$ 10,935	4.8%
Public safety/corrections	189,302	5.7	(205)	(.1)
Transportation	510,866	15.4	70,694	16.1
Health/social services	1,018,333	30.6	(60,970)	(5.6)
Education/cultural	894,591	26.9	33,557	3.9
Resource/recreation/environment	184,359	5.5	72,971	65.5
Economic development/assistance	168,007	5.0	4,112	2.5
Securities lending	1,734	.1	(2,202)	(55.9)
Debt service	57,168	1.7	630	1.1
Capital outlay	63,073	1.9	(1,983)	(3.0)
Total expenditures	\$3,327,140	100.0	\$127,539	

An explanation of significant changes by expenditure function follows:

Transportation – Expenditure increases were primarily due to increased spending for highway construction in Montana Department of Transportation.

Health/Social Services – Expenditure decreases are related to moving Department of Environmental Quality to the Resource/Recreation/Environment function. The remaining net increase between the two functions is comprised of 1) decreased General Fund expenditures of approximately \$25 million imposed by the August 2002 Special Session; 2) an increase in federal Medicaid costs; and 3) an increase of approximately \$12 million for the Thompson/Fisher land exchange.

Resource/Recreation/Environment – The expenditure increase is primarily related to moving Department of Environmental Quality expenditures from the Health/social services category to this category.

Securities Lending – The expenditure decrease was due to the lower interest rates in fiscal year 2003.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$4 billion, net of accumulated depreciation of \$1.8 billion, leaving a net book value of \$2.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 112% in terms of net book value. The significant increase in capital assets is the inclusion of infrastructure assets in place prior to fiscal

year 2002. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Depreciation charges for the year totaled \$37 million compared to \$30 million in fiscal year 2002. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements .

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from \$214.135 million at June 30, 2002, to \$227.625 million at June 30, 2003.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

	Amount (in thousands)	Ratio Debt to Assessed Value (1)	State Debt Per Capita (2)
General obligation debt	\$227,625	.48%	\$250.41

(1) Assessed value is based on tax year.

(2) Based on a 2002 estimated Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.0 percent in the second quarter of 2003, which is an increase from a rate of 3.4 percent during the second quarter of 2002. This compares favorably with the nation's average unemployment rate of 6.1 percent during the same time period.

When the 58th Legislative Session convened on January 6, 2003, the Legislature was faced with a substantial General Fund budget deficit of \$230.4 million for the 2005 biennium. The primary reasons for this projection were the estimated decline in individual and corporation income taxes, reduced investment earnings and higher human service and correction costs. The Legislature erased the projected deficit through general operating reductions and the enactment of numerous pieces of other legislation that enhanced state revenues. The Legislature adjourned on April 26, 2003, with a projected General Fund balance for the 2005 biennium of \$46.2 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, Montana 59620.

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STATEMENT OF NET ASSETS

JUNE 30, 2003

(expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 469,201	\$ 226,237	\$ 695,438	\$ 166,708
Receivables (net)	234,680	29,502	264,182	47,291
Due from primary government	-	-	-	2,822
Due from other governments	131,482	-	131,482	19,271
Due from component units	1,719	621	2,340	545
Internal balances	8,893	(8,893)	-	-
Inventories	24,312	5,920	30,232	4,688
Long-term loans/notes receivable	186,820	7,666	194,486	606,567
Equity in pooled investments (Note 3)	1,260,838	-	1,260,838	13,611
Investments (Note 3)	325,568	10,608	336,176	777,103
Securities lending collateral (Note 3)	84,645	113	84,758	37,842
Deferred charges	1,446	1,221	2,667	8,486
Restricted assets:				
Cash/cash equivalents (Note 3)	-	-	-	17,869
Notes/loans receivable	-	47,752	47,752	-
Investments (Note 3)	-	3,496	3,496	5,134
Capital assets (Note 5):				
Land	300,246	800	301,046	11,212
Land improvements	11,178	1,381	12,559	22,662
Buildings/improvements	323,582	6,098	329,680	588,142
Equipment	235,783	9,881	245,664	127,330
Infrastructure	2,821,593	884	2,822,477	31,336
Other capital assets	67,378	-	67,378	123,248
Construction in progress	174,368	71	174,439	13,205
Intangible assets	27,836	1,188	29,024	5,147
Less accumulated depreciation	(1,736,637)	(10,108)	(1,746,745)	(456,644)
Total capital assets	2,225,327	10,195	2,235,522	465,638
Other assets	3,907	2,282	6,189	6,766
Total assets	4,958,838	336,720	5,295,558	2,180,341
LIABILITIES				
Accounts payable	295,188	8,466	303,654	39,539
Lottery prizes payable	-	3,039	3,039	-
Due to primary government	-	-	-	2,340
Due to other governments	2,834	-	2,834	12,584
Due to component units	2,820	2	2,822	545
Deferred revenue	73,997	4,035	78,032	17,401
Amounts held in custody for others	6,511	524	7,035	7,577
Securities lending liability (Note 3)	84,645	113	84,758	37,842
Other liabilities	897	-	897	-
Short-term debt (Note 11)	-	72,190	72,190	-
Long-term liabilities (Note 11):				
Due within one year	78,797	7,738	86,535	135,365
Due in more than one year	369,306	10,010	379,316	1,283,840
Total liabilities	914,995	106,117	1,021,112	1,537,033

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 2,049,489	\$ 9,084	\$ 2,058,573	\$ 254,163
Restricted for:				
Transportation	69,954	-	69,954	-
Fish, wildlife, and parks	54,452	-	54,452	-
Federal grants	35,575	-	35,575	-
Debt service	6,168	-	6,168	1,030
Unemployment compensation	-	193,632	193,632	-
Funds held as permanent investments:				
Nonexpendable	1,371,064	-	1,371,064	12,606
Housing authority	-	-	-	129,416
Reclamation	148,173	-	148,173	-
Other purposes	131,807	8,636	140,443	11,188
Unrestricted	177,161	19,251	196,412	234,905
Total net assets	\$ 4,043,843	\$ 230,603	\$ 4,274,446	\$ 643,308

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
Primary government:						
Governmental activities:						
General government	\$ 280,740	\$ 42,849	\$ 63,280	\$ -	\$ -	(174,611)
Public safety/corrections	194,885	124,901	44,235	1,384	-	(24,365)
Transportation	286,181	61,316	7,895	306,400	-	89,430
Health/social services	1,023,893	31,074	740,210	-	-	(252,609)
Education/cultural	899,575	69,228	133,624	237	-	(696,486)
Resource/recreation/environment	234,848	67,830	77,627	-	-	(89,391)
Economic development/assistance	169,270	17,835	103,832	-	-	(47,603)
Interest on long-term debt	19,910	-	-	-	-	(19,910)
Total governmental activities	3,109,302	415,033	1,170,703	308,021	-	(1,215,545)
Business-type activities:						
Unemployment Insurance	92,639	66,493	10,442	-	-	(15,704)
Liquor Stores	40,097	46,955	-	-	-	6,858
State Lottery	27,320	34,696	-	-	-	7,376
Economic Development Bonds	2,426	19	-	-	-	(2,407)
Hail Insurance	2,029	2,568	-	-	-	539
General Government Services	14,177	12,658	-	369	-	(1,150)
Prison Funds	4,515	4,371	-	141	-	(3)
MUS Group Insurance	35,906	38,473	-	-	-	2,567
Total business-type activities	219,109	206,233	10,442	510	-	(1,924)
Total primary government	\$ 3,328,411	\$ 621,266	\$ 1,181,145	\$ 308,531	\$ -	(1,217,469)
Component units:						
Authorities:						
Housing Authority	\$ 45,360	\$ 230	\$ 285	\$ -	\$ -	(44,845)
Facility Finance Authority	228	284	-	-	-	56
State Compensation Insurance (New Fund)	184,604	117,936	-	-	-	(66,668)
State Compensation Insurance (Old Fund)	28,221	-	-	-	-	(28,221)
State University System:						
Montana State University	329,086	139,319	115,952	9,595	-	(64,220)
University of Montana	261,218	125,064	76,357	1,658	-	(58,139)
Total component units	\$ 848,717	\$ 382,833	\$ 192,594	\$ 11,253	\$ -	(262,037)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,215,545)	\$ (1,924)	\$ (1,217,469)	\$ (262,037)
General revenues:				
Taxes:				
Property	170,803	-	170,803	-
Fuel	190,030	-	190,030	-
Natural resource	111,776	-	111,776	-
Individual income	540,926	-	540,926	-
Corporate income	44,934	-	44,934	-
Other	201,929	13,650	215,579	-
Settlements	35,754	-	35,754	-
Unrestricted investment earnings	206,970	16,028	222,998	115,146
Payment from State of Montana	-	-	-	135,631
Gain on sale of capital assets	311	-	311	18
Miscellaneous	24,045	5,750	29,795	10
Transfers	32,366	(32,366)	-	-
Total general revenues and transfers	1,559,844	3,062	1,562,906	250,805
Change in net assets	344,299	1,138	345,437	(11,232)
Total net assets - July 1 - as previously reported	2,696,381	233,314	2,929,695	653,723
Prior period adjustments	1,003,163	(3,849)	999,314	817
Total net assets - July 1 - as restated	3,699,544	229,465	3,929,009	654,540
Total net assets - June 30	\$ 4,043,843	\$ 230,603	\$ 4,274,446	\$ 643,308

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
ASSETS							
Cash/cash equivalents (Note 3)	\$ 34,186	\$ 232,959	\$ 64,258	\$ 56,515	\$ 16,407	\$ 46,060	\$ 450,385
Receivables (net) (Note 4)	148,497	55,611	9,845	7,600	5,441	4,410	231,404
Interfund loans receivable (Note 12)	45,368	39,124	191	-	-	-	84,683
Due from other governments	7	1,425	130,047	-	-	-	131,479
Due from component units	283	850	259	-	-	5	1,397
Due from other funds (Note 12)	18,085	23,498	1,496	1	231	855	44,166
Inventories	2,619	20,850	21	-	-	-	23,490
Equity in pooled investments (Note 3)	-	206,731	-	432,471	450,929	170,707	1,260,838
Long-term loans/notes receivable	48	153,211	800	-	-	32,761	186,820
Advances to other funds (Note 12)	100	10,572	300	48,429	-	3,188	62,589
Investments (Note 3)	-	117,145	581	188,553	-	15,024	321,303
Securities lending collateral (Note 3)	-	20,655	-	26,083	27,196	10,711	84,645
Other assets	2,202	947	376	-	-	-	3,525
Total assets	\$ 251,395	\$ 883,578	\$ 208,174	\$ 759,652	\$ 500,204	\$ 283,721	\$ 2,886,724
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	118,980	67,620	77,048	2	5,317	1,600	270,567
Interfund loans payable (Note 12)	-	20,350	60,324	-	-	366	81,040
Advances from other funds (Note 12)	-	51,617	251	-	-	10,496	62,364
Due to other governments	115	722	1,995	-	-	-	2,832
Due to component units	13,124	503	1,519	-	602	16	15,764
Due to other funds (Note 12)	11,577	5,913	3,438	6,187	10,654	3,228	40,997
Deferred revenue	52,827	26,996	11,483	-	-	-	91,306
Amounts held in custody for others	3,651	2,088	616	-	72	-	6,427
Securities lending liability (Note 3)	-	20,655	-	26,083	27,196	10,711	84,645
Other liabilities	-	51	-	-	-	-	51
Total liabilities	200,274	196,515	156,674	32,272	43,841	26,417	655,993
Fund balances:							
Reserved for:							
Encumbrances	4,439	26,187	11,719	-	-	199	42,544
Inventories	2,619	20,850	-	-	-	-	23,469
Long-term loans	48	153,211	800	-	-	32,761	186,820
Long-term advances (Note 12)	100	10,572	300	48,429	-	3,188	62,589
Special revenue	-	-	13,231	-	-	-	13,231
Debt service	-	-	-	-	-	6,168	6,168
Trust principal (Note 14)	-	-	-	678,951	456,363	187,322	1,322,636
Escheated property	850	14	-	-	-	-	864
Unreserved, designated (Note 1)	-	-	-	-	-	13,513	13,513
Unreserved, undesignated, reported in:							
General fund	43,065	-	-	-	-	-	43,065
Special revenue funds	-	476,229	25,450	-	-	-	501,679
Debt service funds	-	-	-	-	-	(2,782)	(2,782)
Capital projects funds	-	-	-	-	-	16,935	16,935
Total fund balances	51,121	687,063	51,500	727,380	456,363	257,304	2,230,731
Total liabilities and fund balances	\$ 251,395	\$ 883,578	\$ 208,174	\$ 759,652	\$ 500,204	\$ 283,721	\$ 2,886,724

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2003

(expressed in thousands)

Total fund balances for governmental funds \$ 2,230,731

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore not reported in the funds.

Land	300,010	
Land improvements	11,083	
Buildings/improvements	320,730	
Equipment	68,015	
Infrastructure	2,821,593	
Other capital assets	67,378	
Construction in progress	173,115	
Intangible assets	27,586	
Less accumulated depreciation	(1,642,591)	
Total capital assets		2,146,919

Certain tax revenues are earned, but not available and therefore deferred
in the funds. 18,755

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and central computer services, to
individual funds. The assets and liabilities of the internal service funds
are included in the governmental activities in the statement of net assets. 48,122

Deferred issue costs are reported as current expenditures in the funds.
These costs are amortized over the life of the bonds and included
in governmental activities in the statement of net assets. 1,446

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

Accrued interest	(5,013)	
Lease/installment purchase payable	(1,812)	
Bonds/notes payable (net)	(327,268)	
Compensated absences payable	(66,725)	
Early retirement benefits payable	(319)	
Arbitrage rebate tax payable	(147)	
Other liabilities	(846)	
Total long-term liabilities		(402,130)

Net assets of governmental activities \$ 4,043,843

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
REVENUES							
Licenses/permits	\$ 119,000	\$ 90,539	\$ -	\$ -	\$ 719	\$ 353	\$ 210,611
Taxes:							
Natural resource	43,624	50,203	-	14,719	-	3,230	111,776
Individual income	531,818	-	-	-	-	-	531,818
Corporate income	43,826	-	-	-	-	-	43,826
Property	170,795	8	-	-	-	-	170,803
Fuel	-	190,017	-	-	-	13	190,030
Other (Note 1)	163,619	36,593	-	-	-	1,716	201,928
Charges for services/fines/forfeits/settlements	49,629	59,728	34,798	-	-	13,784	157,939
Investment savings	6,952	40,551	247	68,374	58,999	29,283	204,406
Securities lending income	312	444	-	466	490	238	1,950
Sale of documents/merchandise/property	388	5,371	9	-	4,688	2,648	13,104
Rentals/leases/royalties	86	478	-	-	27,645	115	28,324
Contributions/premiums	-	6,933	-	-	-	-	6,933
Grants/contracts/donations	2,754	21,532	260	-	5	9	24,560
Federal	27,688	1,928	1,424,549	-	-	-	1,454,165
Federal indirect cost recoveries	126	31,445	2,312	-	-	-	33,883
Other revenues	20,369	3,593	55	-	-	27	24,044
Total revenues	1,180,986	539,363	1,462,230	83,559	92,546	51,416	3,410,100
EXPENDITURES							
Current:							
General government	168,797	62,490	4,613	-	-	3,807	239,707
Public safety/corrections	115,911	39,640	32,756	-	-	995	189,302
Transportation	141	196,548	314,177	-	-	-	510,866
Health/social services	255,905	30,692	731,563	-	-	173	1,018,333
Education/cultural	661,700	71,865	158,258	-	2,759	9	894,591
Resource/recreation/environment	23,870	111,925	48,479	-	-	85	184,359
Economic development/assistance	19,688	48,895	99,331	-	-	93	168,007
Debt service:							
Principal retirement	514	1,106	137	-	-	37,245	39,002
Interest/fiscal charges	1,882	541	20	-	-	15,723	18,166
Capital outlay	929	21,495	21,136	-	-	19,513	63,073
Securities lending	264	391	-	422	444	213	1,734
Total expenditures	1,249,601	585,588	1,410,470	422	3,203	77,856	3,327,140
Excess of revenue over (under) expenditures	(68,615)	(46,225)	51,760	83,137	89,343	(26,440)	82,960
OTHER FINANCING SOURCES (USES)							
Loans issued	-	1,343	-	-	-	892	2,235
Bonds issued	-	11,155	-	-	-	20,205	31,360
Refunding bonds issued	-	1,970	-	-	-	42,415	44,385
Discount on bonds issued	-	(65)	-	-	-	-	(65)
Bond premium	-	-	-	-	-	1,720	1,720
Payment to refunding bond escrow agent	-	(915)	-	-	-	(43,493)	(44,408)
Inception of lease/installment contract	158	71	92	-	-	-	321
General capital asset sale proceeds	-	312	-	-	-	-	312
Transfers in (Note 12)	63,385	119,238	4,640	3,307	-	41,320	231,890
Transfers out (Note 12)	(34,501)	(16,449)	(29,324)	(41,578)	(54,812)	(23,941)	(200,605)
Total other financing sources (uses)	29,042	116,660	(24,592)	(38,271)	(54,812)	39,118	67,145
Excess of revenues/other sources over (under) expenditures/other uses	(39,573)	70,435	27,168	44,866	34,531	12,678	150,105
Fund balances - July 1 - as previously reported	89,243	613,970	23,146	682,392	421,625	244,505	2,074,881
Prior period adjustments (Note 2)	1,338	3,838	1,186	122	207	121	6,812
Fund balances - July 1 - as restated	90,581	617,808	24,332	682,514	421,832	244,626	2,081,693
Increase (decrease) in inventories	113	(1,180)	-	-	-	-	(1,067)
Fund balances - June 30	\$ 51,121	\$ 687,063	\$ 51,500	\$ 727,380	\$ 456,363	\$ 257,304	\$ 2,230,731

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
JUNE 30, 2003
(expressed in thousands)

Net change in fund balances - total governmental funds \$ 150,105

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	220,975	
Depreciation expense	(27,007)	
Excess of capital outlay over depreciation expense		193,968

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (4,305)

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. (1,067)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 10,217

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (3,246)

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:

Loans issued	(2,235)	
Bonds issued	(31,360)	
Refunding bonds issued	(44,385)	
Discount on bonds issued	65	
Bond premium	(1,720)	
Payment to refunding bond escrow agent	44,408	
Capital lease financing	(321)	
Principal retirement	39,002	
Issuance costs deferral	1,561	
Bond issuance costs amortization	(564)	
Bond refunding loss amortization	(374)	
Bond discount amortization	(13)	
Bond premium amortization	130	
Total long-term debt proceeds/repayment		4,194

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(2,481)	
Compensated absences	(4,403)	
Early retirement benefits	18	
Arbitrage rebate tax	1,303	
Other liabilities	(4)	
Total additional expenditures		(5,567)

Change in net assets of governmental activities	<u>\$ 344,299</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --
	ECONOMIC				INTERNAL
	UNEMPLOYMENT	DEVELOPMENT			SERVICE
	INSURANCE	BONDS	NONMAJOR	TOTAL	FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 190,480	\$ 10,763	\$ 24,994	\$ 226,237	\$ 18,816
Receivables (net) (Note 4)	5,352	7,407	16,737	29,496	3,197
Interfund loans receivable (Note 12)	-	-	105	105	534
Due from other funds (Note 12)	3	-	229	232	6,818
Due from component units	-	-	625	625	401
Inventories	-	-	5,920	5,920	822
Short-term investments	-	8,954	-	8,954	-
Securities lending collateral (Note 3)	-	-	113	113	-
Other current assets	-	-	248	248	390
Total current assets	195,835	27,124	48,971	271,930	30,978
Noncurrent assets:					
Restricted assets:					
Restricted notes/loans receivable	-	47,752	-	47,752	-
Restricted investments	-	3,496	-	3,496	-
Total restricted assets	-	51,248	-	51,248	-
Advances to other funds (Note 12)	-	-	330	330	-
Long-term investments (Note 3)	-	175	1,479	1,654	4,265
Long-term notes/loans receivable	-	7,663	3	7,666	-
Deferred charges	-	1,221	-	1,221	-
Other long-term assets	-	-	2,035	2,035	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	1,381	1,381	95
Buildings/improvements	-	-	6,098	6,098	2,852
Equipment	-	12	9,869	9,881	167,768
Infrastructure	-	-	884	884	-
Construction in progress	-	-	71	71	1,253
Intangible assets	-	-	1,188	1,188	250
Less accumulated depreciation	-	(6)	(10,102)	(10,108)	(94,046)
Total capital assets	-	6	10,189	10,195	78,408
Total noncurrent assets	-	60,313	14,036	74,349	82,673
Total assets	195,835	87,437	63,007	346,279	113,651

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT	NONMAJOR	TOTAL	ACTIVITIES – INTERNAL SERVICE FUNDS
		BONDS			
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 1,228	\$ 661	\$ 6,577	\$ 8,466	\$ 6,616
Lottery prizes payable	-	-	1,340	1,340	-
Interfund loans payable (Note 12)	-	-	250	250	4,032
Due to component units	-	-	2	2	53
Due to other funds (Note 12)	644	7	8,658	9,309	910
Deferred revenue	-	18	3,999	4,017	1,446
Short-term debt (Note 11)	-	72,190	-	72,190	-
Lease/installment purchase payable (Note 10)	-	-	-	-	796
Bonds/notes payable - net (Note 11)	-	2,077	1,110	3,187	1,703
Amounts held in custody for others	331	101	92	524	85
Securities lending liability (Note 3)	-	-	113	113	-
Estimated insurance claims (Note 8)	-	-	3,975	3,975	13,472
Compensated absences payable (Note 11)	-	12	491	503	2,368
Arbitrage rebate tax payable	-	73	-	73	-
Total current liabilities	2,203	75,139	26,607	103,949	31,481
Long-term liabilities:					
Lottery prizes payable	-	-	1,699	1,699	-
Advances from other funds (Note 12)	-	-	-	-	555
Deferred revenue	-	18	-	18	-
Lease/installment purchase payable (Note 10)	-	-	-	-	678
Bonds/notes payable - net (Note 11)	-	7,189	-	7,189	1,835
Estimated insurance claims (Note 8)	-	-	2,130	2,130	28,942
Compensated absences payable (Note 11)	-	19	575	594	2,038
Arbitrage rebate tax payable	-	97	-	97	-
Total long-term liabilities	-	7,323	4,404	11,727	34,048
Total liabilities	2,203	82,462	31,011	115,676	65,529
NET ASSETS					
Invested in capital assets, net of related debt	-	6	9,078	9,084	73,394
Restricted for:					
Unemployment Compensation	193,632	-	-	193,632	-
Other Purposes	-	2,853	5,783	8,636	-
Unrestricted	-	2,116	17,135	19,251	(25,272)
Total net assets	\$ 193,632	\$ 4,975	\$ 31,996	\$ 230,603	\$ 48,122

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 (expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 19	\$ 91,310	\$ 91,329	\$ 88,587
Investment earnings	12,634	339	448	13,421	591
Securities lending income	-	-	11	11	26
Financing income	-	2,596	-	2,596	-
Contributions/premiums	66,346	-	48,333	114,679	83,750
Grants/contracts/donations	10,442	-	-	10,442	-
Taxes	-	-	13,650	13,650	4
Other operating revenues	5,434	-	537	5,971	937
Total operating revenues	94,856	2,954	154,289	252,099	173,895
Operating expenses:					
Personal services	-	199	8,828	9,027	32,874
Contractual services	-	38	9,466	9,504	13,327
Supplies/materials	-	4	41,583	41,587	15,940
Benefits/claims	92,497	-	42,198	134,695	83,909
Depreciation	-	2	1,182	1,184	9,890
Amortization	-	-	277	277	206
Utilities/rent	-	39	610	649	7,299
Communications	-	7	1,055	1,062	8,997
Travel	-	4	152	156	350
Repair/maintenance	-	-	388	388	6,506
Lottery prize payments	-	-	17,564	17,564	-
Interest expense	-	2,015	81	2,096	261
Securities lending expense	-	-	9	9	23
Arbitrage rebate tax	-	82	-	82	-
Other operating expenses	-	36	1,074	1,110	1,683
Total operating expenses	92,497	2,426	124,467	219,390	181,265
Operating income (loss)	2,359	528	29,822	32,709	(7,370)
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	-	-	(34)	(34)	(554)
Federal indirect cost recoveries	-	-	-	-	3,598
Increase (decrease) value of livestock	-	-	318	318	-
Total nonoperating revenues (expenses)	-	-	284	284	3,044
Income (loss) before contributions and transfers	2,359	528	30,106	32,993	(4,326)
Capital contributions	-	-	510	510	-
Transfers in (Note 12)	-	-	65	65	2,079
Transfers out (Note 12)	(4,315)	(297)	(27,818)	(32,430)	(999)
Change in net assets	(1,956)	231	2,863	1,138	(3,246)
Total net assets - July 1 - as previously reported	195,572	4,744	32,998	233,314	48,458
Prior period adjustments (Note 2)	16	-	(3,865)	(3,849)	2,910
Total net assets - July 1 - as restated	195,588	4,744	29,133	229,465	51,368
Total net assets - June 30	\$ 193,632	\$ 4,975	\$ 31,996	\$ 230,603	\$ 48,122

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 (expressed in thousands)

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 64,080	\$ 19	\$ 138,899	\$ 202,998	\$ 171,841
Payments to suppliers for goods and services	-	(126)	(52,722)	(52,848)	(54,312)
Payments to employees	-	(193)	(8,489)	(8,682)	(31,234)
Grant receipts	10,442	-	-	10,442	3,597
Cash payments for claims	(92,187)	-	(39,677)	(131,864)	(80,854)
Cash payments for prizes	-	-	(17,233)	(17,233)	-
Other operating revenues	5,434	-	298	5,732	854
Net cash provided by (used for) operating activities	(12,231)	(300)	21,076	8,545	9,892
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	(3,684)	(5,128)	-	(8,812)	(2,346)
Proceeds from issuance of bonds and notes	-	15,477	-	15,477	806
Collection of taxes	-	-	13,650	13,650	-
Payment of bond issuance costs	-	(335)	-	(335)	-
Transfers to other funds	-	(297)	(29,275)	(29,572)	(859)
Transfers from other funds	-	-	64	64	1,923
Proceeds from interfund loans/advances	-	-	321	321	4,347
Payments of interfund loans/advances	-	-	(380)	(380)	(6,799)
Net cash provided by (used for) noncapital financing activities	(3,684)	9,717	(15,620)	(9,587)	(2,928)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	-	(1,105)	(1,105)	(11,828)
Proceeds from sale of capital assets	-	-	1	1	1,199
Principal and interest payments on bonds and notes	-	-	(1,146)	(1,146)	(1,443)
Net cash used for capital and related financing activities	-	-	(2,250)	(2,250)	(12,072)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(11,979)	-	(11,979)	(2)
Proceeds from sales or maturities of investments	-	4,914	298	5,212	4,400
Proceeds from securities lending transactions	-	-	13	13	26
Interest and dividends on investments	12,634	366	363	13,363	646
Payment of securities lending costs	-	-	(11)	(11)	(23)
Collections of principal and interest on loans	-	25,006	-	25,006	-
Cash payment for loans	-	(24,688)	-	(24,688)	-
Arbitrage rebate tax	-	(83)	-	(83)	-
Net cash provided by (used for) investing activities	12,634	(6,464)	663	6,833	5,047
Net increase (decrease) in cash and cash equivalents	(3,281)	2,953	3,869	3,541	(61)
Cash and cash equivalents, July 1	193,761	7,810	21,125	222,696	18,877
Cash and cash equivalents, June 30	\$ 190,480	\$ 10,763	\$ 24,994	\$ 226,237	\$ 18,816

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 2,359	\$ 528	\$ 29,822	\$ 32,709	\$	(7,370)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	2	1,182	1,184		9,890
Amortization	-	-	277	277		206
Taxes	-	-	(13,650)	(13,650)		-
Interest expense	-	2,015	81	2,096		261
Securities lending expense	-	-	9	9		23
Investment Earnings	(12,634)	(339)	(448)	(13,421)		(591)
Securities lending income	-	-	(11)	(11)		(26)
Financing income	-	(2,596)	-	(2,596)		-
Federal indirect cost recoveries	-	-	-	-		3,598
Arbitrage rebate tax	-	82	-	82		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	(2,962)	-	(3,308)	(6,270)		(513)
Decr (incr) in due from other funds	16	-	47	63		(498)
Decr (incr) in due from component units	-	-	356	356		(50)
Decr (incr) in inventories	-	-	1,193	1,193		64
Decr (incr) in other assets	-	-	355	355		10
Incr (decr) in accounts payable	1,131	9	2,328	3,468		903
Incr (decr) in lottery prizes payable	-	-	(4)	(4)		-
Incr (decr) in due to other funds	(141)	2	(2)	(141)		(314)
Incr (decr) in due to component units	-	-	-	-		14
Incr (decr) in deferred revenue	-	-	1,792	1,792		530
Incr (decr) in amounts held in custody for others	-	-	(35)	(35)		69
Incr (decr) in compensated absences payable	-	(3)	111	108		284
Incr (decr) in estimated claims	-	-	981	981		3,402
Net cash provided by (used for) operating activities	\$ (12,231)	\$ (300)	\$ 21,076	\$ 8,545	\$	9,892
Schedule of noncash transactions:						
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	\$	2
Incr (decr) in fair value of investments	-	1	-	1		2
Total noncash transactions	\$ -	\$ 1	\$ -	\$ 1	\$	4

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2003

(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS		PRIVATE- PURPOSE TRUST FUNDS		INVESTMENT TRUST		AGENCY FUNDS	
ASSETS								
Cash/cash equivalents (Note 3)	\$	164,303	\$	1,520	\$	664,571	\$	106,752
Receivables (net):								
Accounts receivable		21,403		-		-		-
Interest		22,460		-		252		47,893
Due from primary government		12,997		-		-		-
Due from other PERB plans		5,741		-		-		-
Long-term loans/notes receivable		451		-		-		-
Total receivables		63,052		-		252		47,893
Investments at fair value:								
Equity in pooled investments (Note 3)		4,932,205		-		-		-
Other investments (Note 3)		435,742		-		-		-
Total investments		5,367,947		-		-		-
Securities lending collateral (Note 3)		179,702		-		-		-
Capital Assets:								
Land		35		-		-		-
Buildings/improvements		158		-		-		-
Equipment		152		-		-		-
Accumulated depreciation		(249)		-		-		-
Intangible assets		3,321		-		-		-
Total capital assets		3,417		-		-		-
Other assets		3		3,404		-		15,084
Total assets		5,778,424		4,924		664,823		169,729
LIABILITIES								
Accounts payable		3,369		5		252		28,061
Due to primary government		87		-		-		-
Due to other PERB plans		5,741		-		-		-
Deferred revenue		254		-		-		-
Bonds/notes payable (net)		1,628		-		-		-
Amounts held in custody for others		-		-		-		141,668
Securities lending liability (Note 3)		179,702		-		-		-
Compensated absences payable		412		-		-		-
Total liabilities		191,193		5		252		169,729
NET ASSETS								
Held in trust for pension benefits and other purposes	\$	5,587,231	\$	4,919	\$	664,571	\$	-

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 146,758	\$ -	\$ -
Employee	147,478	-	-
Other contributions	1,399	-	1,089,590
Net investment earnings:			
Investment earnings	344,985	11	9,645
Administrative investment expense	(7,101)	-	-
Securities lending income	3,250	-	-
Securities lending expense	(2,632)	-	-
Charges for services	260	-	-
Other additions	32	2,934	-
Total additions	634,429	2,945	1,099,235
DEDUCTIONS			
Benefits	306,965	-	-
Refunds	18,308	-	-
Distributions	-	2,172	1,195,880
Administrative expenses:			
Personal services	2,339	-	-
Contractual services	2,249	41	-
Supplies/materials	84	-	-
Depreciation	13	-	-
Amortization	516	-	-
Utilities/rent	214	-	-
Communications	201	-	-
Travel	68	-	-
Repair/maintenance	38	-	-
Grants	-	4	-
Interest expense	49	-	-
Other operating expenses	209	-	-
Local assistance	12	-	-
Transfers to ORP	5,957	-	-
Transfers to PERS-DCRP	15,990	-	-
Total deductions	353,212	2,217	1,195,880
Change in net assets	281,217	728	(96,645)
Net assets - July 1 - as previously reported	5,306,015	5,567	761,216
Prior period adjustments (Note 2)	(1)	(1,376)	-
Net assets - July 1 - as restated	5,306,014	4,191	761,216
Net assets - June 30	\$ 5,587,231	\$ 4,919	\$ 664,571

The notes to the financial statements are an integral part of this statement.

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2003
(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 7,756	\$ 1,706	\$ 32,141	\$ 4,743
Receivables (net)	15,325	199	10,875	1,282
Due from primary government	3	-	2	-
Due from other governments	-	-	-	-
Due from component units	-	-	185	-
Inventories	-	-	-	-
Long-term loans/notes receivable	582,059	452	73	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	147,750	-	542,323	81,902
Securities lending collateral (Note 3)	-	-	30,969	6,099
Deferred charges	6,304	-	-	-
Restricted assets:				
Cash/cash equivalents (Note 3)	-	-	-	-
Investments (Note 3)	-	-	-	-
Capital assets (Note 5):				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings/improvements	-	-	-	-
Equipment	88	2	2,970	-
Infrastructure	-	-	-	-
Other capital assets	-	-	-	-
Construction in progress	-	-	-	-
Intangible assets	75	-	2,110	-
Less accumulated depreciation	(49)	(2)	(1,846)	-
Total capital assets	114	-	3,234	-
Other assets	175	2	2,348	-
Total assets	759,486	2,359	622,150	94,026
LIABILITIES				
Accounts payable	3,898	7	6,960	582
Due to primary government	28	2	1,139	2
Due to other governments	-	-	-	-
Due to component units	3	-	-	185
Deferred revenue	-	-	203	-
Amounts held in custody for others	710	-	4,498	-
Securities lending liability (Note 3)	-	-	30,969	6,099
Long-term liabilities (Note 11):				
Due within one year	9,690	2	88,487	10,241
Due in more than one year	615,627	10	326,801	70,722
Total liabilities	629,956	21	459,057	87,831
NET ASSETS				
Invested in capital assets, net of related debt	114	-	2,764	-
Restricted for:				
Debt service	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	129,416	-	-	-
Other purposes	-	-	-	816
Unrestricted	-	2,338	160,329	5,379
Total net assets	\$ 129,530	\$ 2,338	\$ 163,093	\$ 6,195

The notes to the financial statements are an integral part of this statement.

STATE UNIVERSITY SYSTEM

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 81,896	\$ 38,466	\$ 166,708
11,431	8,179	47,291
1,160	1,657	2,822
13,304	5,967	19,271
22	338	545
3,009	1,679	4,688
16,224	7,759	606,567
-	13,611	13,611
2,142	2,986	777,103
-	774	37,842
-	2,182	8,486
941	16,928	17,869
5,134	-	5,134
4,276	6,936	11,212
13,416	9,246	22,662
283,641	304,501	588,142
80,493	43,777	127,330
31,336	-	31,336
63,340	59,908	123,248
5,886	7,319	13,205
2,119	843	5,147
(247,738)	(207,009)	(456,644)
236,769	225,521	465,638
2,597	1,644	6,766
374,629	327,691	2,180,341
15,923	12,169	39,539
988	181	2,340
5,985	6,599	12,584
338	19	545
8,971	8,227	17,401
876	1,493	7,577
-	774	37,842
15,810	11,135	135,365
120,808	149,872	1,283,840
169,699	190,469	1,537,033
143,301	107,984	254,163
322	708	1,030
9,341	3,265	12,606
-	-	129,416
4,963	5,409	11,188
47,003	19,856	234,905
\$ 204,930	\$ 137,222	\$ 643,308

COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 (expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Authorities:				
Housing Authority	\$ 45,360	\$ 230	\$ 285	\$ -
Facility Finance Authority	228	284	-	-
State Compensation Insurance (New Fund)	184,604	117,936	-	-
State Compensation Insurance (Old Fund)	28,221	-	-	-
State University System:				
Montana State University	329,086	139,319	115,952	9,595
University of Montana	261,218	125,064	76,357	1,658
Total component units	\$ 848,717	\$ 382,833	\$ 192,594	\$ 11,253

General revenues:

Unrestricted investment earnings
 Payment from State of Montana
 Gain on sale of capital assets
 Miscellaneous

Total general revenues

Change in net assets

Total net assets - July 1 - as previously reported

Prior period adjustments

Total net assets - July 1 - as restated

Total net assets - June 30

The notes to the financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ (44,845)	\$ 56	\$ (66,668)	\$ (28,221)	\$ (64,220)	\$ (58,139)	\$ (44,845) 56 (66,668) (28,221) (64,220) (58,139) (262,037)
(44,845)	56	(66,668)	(28,221)	(64,220)	(58,139)	
52,808	48	49,044	9,630	1,133	2,483	115,146
-	-	-	-	79,146	56,485	135,631
-	-	2	-	-	16	18
10	-	-	-	-	-	10
52,818	48	49,046	9,630	80,279	58,984	250,805
7,973	104	(17,622)	(18,591)	16,059	845	(11,232)
121,557	2,234	180,715	24,865	187,157	137,195	653,723
-	-	-	(79)	1,714	(818)	817
121,557	2,234	180,715	24,786	188,871	136,377	654,540
\$ 129,530	\$ 2,338	\$ 163,093	\$ 6,195	\$ 204,930	\$ 137,222	\$ 643,308

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the Legislative Auditor. The report is issued under separate cover and available at 301 South Park, Room 204, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued by the Legislative Auditor every two years. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the legislature. The fund is audited annually by the Legislative Auditor. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. Individual audit reports are issued by the Legislative Auditor annually. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1)

Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; (3) the Student Assistance Foundation of Montana, a private non-profit corporation; and (4) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 15). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The system is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement systems for the purpose of providing retirement, disability, death, and lump-sum payments to each system member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) is funded from employer and employee contributions, investment earnings and state contributions from city, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member and county contributions. The Judges Retirement System is

funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member contributions and investment earnings.

The board is a discretely presented component unit responsible for the ten separate public employee retirement systems and the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental

and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due. Significant intrafund transactions and balances have been eliminated.

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

Trust and Agency Funds – To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs. These include: (1) pension (and other employee benefit) trust funds; (2) agency funds, (3) investment trust funds, and (4) private-purpose trust funds.

The State reports the following funds as major as defined under GASB 34:

Major Governmental Funds

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Proprietary Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues

generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, except the Housing Authority in the component unit proprietary funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, cash held by trustees, and cash invested in STIP (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources. An exception is the Federal Special Revenue Fund food stamp inventory balance, which is offset by deferred revenue.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, higher education units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the Balance Sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of primary government and component unit proprietary activities are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets. The Montana Department of Transportation added the retroactive highway infrastructure to the state accounting system during fiscal year 2003. As a result the state is now reporting the infrastructure required under GASB 34 in its entirety.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to

50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure is \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

K. Deferred Revenue

Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

L. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Capital Leases

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease, as defined, are recorded at inception as expenditures and other financing sources in governmental fund types and as assets and liabilities at

the present value of the future minimum lease payments, using the interest rates stated in the leases.

N. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2002, was 1,499 hours. For fiscal year 2003, 2,038 hours were contributed to the sick leave pool and 2,539.5 hours were withdrawn leaving a balance of 997.5 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an

employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

P. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

Q. Fund Balance

In the fund financial statements, reservations represent those portions of fund balance or net assets not appropriate for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. In fiscal year 2003, the General Fund and Special Revenue Funds do not have fund balance designations. The Debt Service Funds designated fund balances represent management's desire to maintain fund balance in relation to bonds payable.

R. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded as receivables (net of uncollectibles).

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

S. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Video gaming	\$ 45,706	\$ -	\$ -	\$ 45,706
Insurance premium	47,167	-	-	47,167
Inheritance	12,140	-	-	12,140
University system millage	884	11,894	-	12,778
Cigarette/tobacco	15,073	1,924	1,716	18,713
Accommodations	2,304	10,681	-	12,985
Telephone license	21,039	-	-	21,039
Alcoholic beverage	4,077	1,534	-	5,611
Electrical energy	7,801	-	-	7,801
Public contractor	3,082	-	-	3,082
Livestock	-	2,956	-	2,956
Public Service Commission	-	2,068	-	2,068
Freight line	1,484	-	-	1,484
Fire protection	2,701	2,404	-	5,105
Agriculture sales	-	2,100	-	2,100
Consumer Counsel	-	852	-	852
Miscellaneous	161	180	-	341
Total other taxes	\$163,619	\$36,593	\$1,716	\$201,928

NOTE 2. OTHER ACCOUNTING ISSUES

All changes reported in the accompanying financial statements that resulted in the restatement of beginning fund balance/net assets were made to correct errors of prior periods. All retroactive highway infrastructure was added to the state accounting system during fiscal year 2003, resulting in a \$1 billion prior period adjustment on the government-wide Statement of Activities.

For reporting purposes the State combined the non-major enterprise Prison Industries and Prison Ranch funds into one Prison Industries fund. The Prison Industries Training Program, a sub-fund of the Prison Industries Enterprise Fund, was moved to the Prison Industries Internal Service Fund. This resulted in net assets increase of \$116,000 in the Prison Industries Internal Service Fund with a corresponding decrease in the enterprise fund.

Additionally, because internal service funds are included with governmental activities in the government-wide financial statements, this fund reclassification resulted in a beginning net assets increase of \$116,000 in governmental activities, and a corresponding decrease in beginning net assets of the business-type activities.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following Balance Sheet classifications (in thousands):

Cash/cash equivalents	\$ 1,817,161
Equity in pooled investments	\$6,206,654
Investments	\$1,557,651

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the

pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 deposits are uncollateralized. The State's cash deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments where the securities are held by the counter party's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's

cash equivalents or investments are classified in Category 3 at fiscal year-end. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities, in addition to other long-term investment securities, to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91-day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero-coupon bonds and preferred stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock), and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued and traded at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero-coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

As of June 30, 2003, investments in Enron and Burlington Industries, Inc. presented legal and higher credit risk to the State.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2003, the State's agent loaned, on behalf of the State, certain securities held by the agent and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2003, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) **Cash Deposits** – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposits (in thousands)

Risk Category	Carrying Amount	Bank Balance	Fund
1 Insured (FDIC)	\$ 1,759	\$1,759	Various
Collateral held by State/State's agent	17,314	15,721	Various
2	3,443	3,443	Various
3	685	685	Various
Uncategorized:			
Undeposited cash	4,213		
Cash in U.S. Treasury	190,537		
Less: outstanding warrants	(64,781)		
Total cash deposits	<u>\$153,170</u>		

As of June 30, 2003, the carrying amount of deposits for component units was \$70,444,265 and the bank balance was \$64,030,077. Of the bank balance, \$64,030,077 was fully insured or collateralized with securities held by the component units or their agents in the unit's name, and \$5,062,392 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) **Cash Equivalents** – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the component unit proprietary fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and cash invested in STIP. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents (in thousands)

	Risk Category 1			Carrying Amount	Fair Value	Fund
	Securities Not on Loan	for* Securities Collateral	Not* Categorized			
Asset-backed securities	\$733,398	\$-	\$-	\$ 733,398	\$ 733,410	Various
Government securities	59,789	-	-	59,789	61,722	Various
Repurchase agreements	196,005	-	-	196,005	196,005	Various
Variable-rate short term securities	631,006	-	-	631,006	630,978	Various
Direct investments:						
Money markets				43,793	43,793	Various
Total cash equivalents				<u>\$1,663,991</u>	<u>\$1,665,908</u>	
Securities lending collateral						
Investment pool			\$-	\$ -	\$ -	

* At June 30, 2003, no securities were loaned for securities and cash collateral under a security lending agreement with the State's agent.

As of June 30, 2003, local governments invested \$664,570,962 in STIP.

As of June 30, 2003, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$344,338,285.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity/Montana Stock Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, higher education units, and specific trusts established within the State Special Revenue Fund. Purchases are subject to statutory restrictions for quality and size of holdings.

Table 3 - Equity In Pooled Investments (in thousands)

	Risk Category 1		Not Categorized*	Carrying Amount	Fair Value
	Securities Not on Loan	On Loan for Securities Collateral*			
MTCP:					
Common Stock Pool	\$1,655,693	\$-	\$ 19,578	\$1,675,271	\$1,817,071
Equity Index Fund	710,000	-	-	710,000	661,785
DFA Small Cap Subtrust	55,000	-	-	55,000	62,981
SPIFF	34,576	-	-	34,576	35,622
TFBP:					
Corporate Asset-backed	12,255	-	-	12,255	12,255
Corporate Stocks	604,885	-	6,505	611,390	664,571
US Govt. Mortgage-backed	76,291	-	-	76,291	79,160
US Govt. Direct	245,586	-	51,050	296,636	340,815
Yankee Bonds	92,470	-	-	92,470	104,278
State and Local Government	13,885	-	-	13,885	13,887
RFBP:					
Corporate Asset-backed	10,000	-	-	10,000	10,000
Corporate Stocks	839,198	-	9,278	848,476	930,781
US Govt. Mortgage-backed	74,506	-	-	74,506	77,402
US Govt. Direct	326,001	-	53,620	379,621	449,443
Yankee Bonds	81,280	-	995	82,275	91,918
MTIP:					
BGI MSCI Europe Index	40,000	-	-	40,000	41,095
BOI Internal International	114,469	-	18,460	132,929	132,271
Pyford International	107,654	-	15,172	122,826	109,476
Schroder Capital Management	98,496	-	21,876	120,372	113,041
SG Pacific Asset Management	53,497	-	19,759	73,256	74,848
MPEP:					
Private Equities	254,002	-	-	254,002	280,310
State Street SPIFF	24,789	-	-	24,789	25,040
Total pooled investments	5,524,533	-	216,293	5,740,826	6,128,050
Other pool assets (net)	-	-	-	78,604	78,604
Total equity in pooled investments	<u>\$5,524,533</u>	<u>\$-</u>	<u>\$216,293</u>	<u>\$5,819,430</u>	<u>\$6,206,654</u>
Securities lending collateral					
Investment pool			\$256,472	\$ 256,472	\$ 256,472

* At June 30, 2003, these underlying securities, with fair values of \$79,703,155 and \$164,012,395, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2003, component units of the State of Montana had equity in pooled investments with a book value of \$3,894,331,482 and a fair value of \$4,945,815,590.

D. Investments

Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 73.7% of those investments; the Board of Housing, 9.7%; and the Department of Administration's Public Employees Retirement Board, 14.7% for the State's Deferred Compensation Plan and Defined Contribution Retirement Plan. The Department of Natural Resources and Conservation manages 1.2% of total investments for bond-related activities. Additionally, the Montana University System manages 0.7% of total investments.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented in the Balance Sheet at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments (Risk Categories) (in thousands)

	Risk Category 1				
	Securities	Risk	Not	Carrying	Fair
	Not on Loan	Category 2	Categorized*	Amount	Value
Primary government					
Corporate bonds	\$ 30,401	\$ -	\$ 3,987	\$ 34,388	\$ 36,910
Corporate asset-backed	11,687	-	-	11,687	12,042
Government securities	41,289	-	44,897	86,186	91,565
Government mortgage-backed	9,539	-	-	9,539	9,941
Total	\$ 92,916	\$ -	\$48,884	\$ 141,800	\$ 150,458
Component units					
Corporate bonds	\$208,038	\$ -	\$ -	\$ 208,038	\$ 225,970
Corporate asset-backed	15,506	-	-	15,506	16,027
Government securities	191,807	56,654	-	248,461	265,519
Government mortgage-backed	79,751	-	-	79,751	82,801
International bonds	18,480	-	480	18,960	20,604
Savings & loans	258	-	-	258	258
Repurchase agreement	-	91,096	-	91,096	91,096
Foundations	-	-	3,087	3,087	1,899
Other investments	-	-	7,562	7,562	8,767
Total	513,840	147,750	11,129	672,719	712,941
Total	\$606,756	\$147,750	\$60,013	\$ 814,519	\$ 863,399

Direct investments:

Primary government

Commercial loans	188,552	188,552
Total	\$ 188,552	\$ 188,552

Component units

Real estate	\$ 13,512	\$ 13,927
Mortgages	205,861	207,548
Other	79,000	69,958
Deferred compensation	214,394	205,028
Defined contribution	10,428	9,239
Total	523,195	505,700
Total investments	\$1,526,266	\$1,557,651

Securities lending collateral

Investment pool	\$56,643	\$ 56,643	\$ 56,643
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* At June 30, 2003, the underlying securities, with fair values of \$55,128,809 were loaned for cash collateral under a securities lending agreement with the State's agent.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2003, follows (amounts in thousands):

A. Receivables

Receivables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Other Governmental
Licenses and permits	\$ 6,672	\$ 1,472	\$ -	\$ -	\$ -	\$ -
Taxes	151,362	37,554	-	3,372	-	778
Charges for services/ fines/forfeitures	160	10,523	4,430	-	-	-
Investment income	908	5,658	5	4,228	5,441	3,357
Contributions/premiums	-	-	-	-	-	-
Other	7,104	2,804	5,410	-	-	275
Total receivables	166,206	58,011	9,845	7,600	5,441	4,410
Less: allowance for doubtful accounts	(17,709)	(2,400)	-	-	-	-
Receivables, net	\$148,497	\$55,611	\$9,845	\$7,600	\$5,441	\$4,410

Receivables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Other Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$14,764	\$ 84
Investment income	-	1,050	20	76
Contributions/premiums	5,559	-	2,214	3,037
Other	-	6,357	-	-
Total receivables	5,559	7,407	16,998	3,197
Less: allowance for doubtful accounts	(207)	-	(261)	-
Receivables, net	\$5,352	\$7,407	\$16,737	\$3,197

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Other Governmental
Refunds	\$ 81,252	\$ -	\$ -	\$ -	\$ -	\$ -
Tax distributions to other govt	-	10,120	-	-	-	-
Vendors/individuals	27,976	47,451	73,156	-	-	1,587
Payroll	9,574	9,178	3,857	-	-	3
Accrued interest	-	-	-	-	5,317	-
Other	178	871	35	2	-	10
Total	\$118,980	\$67,620	\$77,048	\$2	\$5,317	\$1,600

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Other Enterprise	Internal Service
Vendors/individuals	\$1,228	\$ 2	\$6,187	\$5,082
Payroll	-	9	390	1,490
Accrued interest	-	650	-	44
Total	\$1,228	\$661	\$6,577	\$6,616

NOTE 5. CAPITAL ASSETS**A. Primary Government**

Changes in capital asset balances for the fiscal year ended June 30, 2003, are reflected in the following table; intrafund transfers of capital assets have not been eliminated (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 266,230	\$ 34,262	\$ (246)	\$ 300,246
Construction work in progress	170,884	140,314	(136,830)	174,368
Capitalized collections	63,681	782	(408)	64,055
Total capital assets, not being depreciated	500,795	175,358	(137,484)	538,669
Capital assets, being depreciated				
Infrastructure	253,676	2,706,013	(138,096)	2,821,593
Land improvements	9,661	1,517	-	11,178
Buildings/improvements (1)	305,144	20,364	(1,926)	323,582
Equipment	229,841	21,511	(15,569)	235,783
Other	2,958	1,305	(940)	3,323
Total capital assets, being depreciated	801,280	2,750,710	(156,531)	3,395,459
Less: accumulated depreciation for:				
Infrastructure	(22,712)	(1,432,832)	8,363	(1,447,181)
Land improvements	(205)	(1,016)	51	(1,170)
Buildings/improvements (1)	(138,163)	(9,093)	2,153	(145,103)
Equipment	(137,562)	(16,490)	13,396	(140,656)
Other	(2,155)	(379)	7	(2,527)
Total accumulated depreciation	(300,797)	(1,459,810)	23,970	(1,736,637)
Total capital assets, being depreciated, net	500,483	1,290,900	(132,561)	1,658,822
Intangible assets	37,514	5,691	(15,369)	27,836
Governmental activity capital assets, net	<u>\$1,038,792</u>	<u>\$1,471,949</u>	<u>\$(285,414)</u>	<u>\$2,225,327</u>

Primary Government (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	71	-	-	71
Total capital assets, not being depreciated	871	-	-	871
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	222	1,158	-	1,380
Buildings/improvements (1)	8,906	-	(2,808)	6,098
Equipment	9,449	551	(118)	9,882
Other	1,154	-	(1,154)	-
Total capital assets, being depreciated	20,615	1,709	(4,080)	18,244
Less: accumulated depreciation for:				
Infrastructure	(4)	(455)	-	(459)
Land improvements	-	(1,092)	-	(1,092)
Buildings/improvements (1)	(3,167)	(331)	162	(3,336)
Equipment	(4,180)	(2,701)	1,659	(5,222)
Other	(996)	-	996	-
Total accumulated depreciation	(8,347)	(4,579)	2,817	(10,109)
Total capital assets, being depreciated, net	12,268	(2,870)	(1,263)	8,135
Intangible assets	1,472	-	(284)	1,188
Business-type activity capital assets, net	\$14,611	\$(2,870)	\$(1,547)	\$10,194

- (1) For reporting purposes, the Prison Industries Training Program, a sub-fund of the Prison Industries Enterprise Fund, was moved to the Prison Industries Internal Service Fund. As a result of this fund reclassification, the beginning balances of the governmental activities buildings/improvements and related accumulated depreciation increased by \$58,000 and \$11,000, respectively. A corresponding decrease is reflected in the beginning balances of the business-type activities.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	\$ 1,623
Public safety/corrections	4,572
Transportation (including depreciation of the highway system maintained by the State).	9,207
Health/social services	3,988
Education/cultural	4,575
Resource development/recreation (including depreciation of the State's dams).	2,432
Economic development/assistance	610
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	9,888
Total depreciation expense – governmental activities	\$36,895

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

	Montana State University	University of Montana	Other	Total
Capital assets, not being depreciated				
Land	\$ 4,276	\$ 6,936	\$ -	\$ 11,212
Construction work in progress	5,886	7,319	-	13,205
Capitalized collections	7,767	14,720	-	22,487
Livestock for educational purposes	2,752	-	-	2,752
Total capital assets, not being depreciated	20,681	28,975	-	49,656
Capital assets, being depreciated				
Infrastructure	31,336	-	-	31,336
Land improvements	13,416	9,246	-	22,662
Buildings/improvements	283,641	304,501	-	588,142
Equipment	80,493	43,777	3,060	127,330
Other	52,821	45,188	-	98,009
Total capital assets, being depreciated	461,707	402,712	3,060	867,479
Less: accumulated depreciation	(247,738)	(207,009)	(1,897)	(456,644)
Total capital assets, being depreciated, net	213,969	195,703	1,163	410,835
Intangible assets	2,119	843	2,185	5,147
Discretely presented component units				
Total capital assets, net	\$236,769	\$225,521	\$3,348	\$465,638

NOTE 6. RETIREMENT SYSTEMS

Defined Contribution Plans

ORP - Optional Retirement Program - Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately

vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. As of June 30, 2003, 1,878 employees were members of the ORP. Required employee contributions were 7.044% of salary; required employer contributions were 4.956% of salary, for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered payroll	\$ 113,843
Total payroll	277,763
Employee contributions	\$ 5,639
Percent of covered payroll	4.954%
Employee contributions	\$ 8,020
Percent of covered payroll	7.045%

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to join the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

Participant rights are fully vested in their accounts at the time of deposit in regard to participant contributions and interest. Employer contributions and interest are vested after 5 years of service.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. As of June 30, 2003, the balance of the loan taken by the PERS-DCRP totaled \$1,498,000. Principal repayments on this loan began August 15, 2003, and will be completed during the 2010 fiscal year.

An inter-entity loan was taken from the PERS-DBRP Education Fund on August 18, 2003, to help cover the costs of the PERS-DCRP expenses. The inter-entity loan is due in two years, and interest will be repaid at the same rate as STIP.

For information on the repayment schedules on these loans, please see the separately issued PERS-DCRP financial statements.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2003, the net assets of the plan were \$208,342,000.

The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRS-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS-DBRP), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan.

The eight retirement systems administered by the PERB have actuarial gains and losses smoothed over four years and only one-fourth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2002. The amortization period as of July 1, 2004, will include all the losses for fiscal year 2001, most of the losses for fiscal year 2002, and the investment income in fiscal year 2003. Because of this issue, there is uncertainty with respect to the adequacy of funding for the Public Employees Retirement System - Defined Benefit Retirement Plan, the Game Wardens and Peace Officers Retirement System, and the Sheriffs Retirement System.

The financial statements for PERB include activity for a defined benefit and the associated education fund.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

The Teachers Retirement System actuarial gains and losses are smoothed over five years and only one-fifth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2002. This leaves almost \$443 million in unrecognized investment losses, which must be recognized over the

next three to four years. This unrecognized loss, if not offset by future gains, will cause the amortization period of the unfunded actuarial accrued liability in future valuations to fall outside the measures accepted as actuarially sound.

A summary of government employers participating in PERB, SRS, MPORS, HPORS, FURS, GWPORS, JRS, and TRS by employer type at June 30, 2003, follows:

Retirement System/Plan

	PERS- DBRP	PERS- DCRP	SRS	MPORS	HPORS	FURS	GWPORS	JRS	457	TRS
Employers										
State agencies	34	25	1		1	1	5	1	34	8
Counties	55	42	55							
Cities/towns	93	29		22		15				
Colleges/universities	5	4					3		6	5
School districts	237	68								374
High schools	5									
Other	92	21							2	
Total	521	189	56	22	1	16	8	1	42	387

B. Plan Descriptions

The State contributes to and/or administers ten plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1999 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS-DBRP, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a maximum benefit increase of 3% each January, inclusive of all other adjustments to the member's benefit, if the recipient has been receiving a retirement benefit for at least 12 months.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an

actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System

– This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997, and members electing GABA coverage. The employer contribution rate is 36.33% of active officer's salaries. For members, there is no minimum age, but minimum service is 20 years for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the highest average compensation. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which insure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit paid nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump-sum payment distributed in September. This lump-sum payment is funded by a registration fee of 25

cents per vehicle registration. The average payment in September 2002 was \$2,231. This enhancement is limited to non-GABA members.

JRS – Judges Retirement System – This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district court, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries while the State contributes 25.81% of active judges' salaries. Rights are vested after five years of membership service. Benefit eligibility is age 60 with at least 5 years of service, or any age with 5 years of service actuarially reduced with involuntary terminations. The monthly retirement benefit formula is 3 1/3% per year of the member's highest average compensation for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15 years. For non-GABA members, the percentages are based on the member's current salary, instead of the highest average compensation.

(2) State as an Employer Contributor to Cost-Sharing Multiple-Employer Systems

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions are 6.9% of covered compensation. Each state agency and university system employer contributed 6.9% of PERS-covered payroll. Participating local governments and school district employers contributed 6.8% of PERS-covered payroll. The State contributed 0.1% for local governments and school district employers from the State General Fund. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service, regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 2% times the number of years of service times the highest average compensation times any early retirement reduction, if necessary. Members' rights are vested after five years of membership service.

TRS – Teachers Retirement System – This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Benefit eligibility is age 60 with at least 5 years of creditable service, or at any age with

at least 25 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2033, for the amount that would not be paid for by contributions of university system members. The fiscal year 2003 contribution percentage of the total compensation of employees participating in the ORP program was 4.04% and the contribution was \$4.46 million. The unfunded actuarial accrued liability of \$495.3 million is included in the Schedules of Funding Progress.

SRS – Sheriffs Retirement System – This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs. The member contribution is 9.245% of salary; the employer contribution is 9.535% of SRS-covered payroll. Benefit eligibility is age 50 with at least 5 years of service, or 20 years of service regardless of age. The service retirement benefit is calculated at 2.5% of the highest average compensation for each year of membership service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of membership service.

GWPORS – Game Wardens & Peace Officers Retirement System – This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 10.56% of salary while the State contributes 9.0% of covered active employee salaries. Benefit eligibility is age 50 with at least 20 years of service, or age 55 with at least 5 years of service. The yearly retirement benefit formula is 2.5% times the number of years of service times the highest average compensation. Rights are vested after five years of membership service.

Enacted legislation opened the GWPORS to all state peace officers. The active membership increased from 494 in fiscal year 2000 to 609 in fiscal year 2002. Based on the 2002 actuarial assumptions, the current normal cost is more than the statutory contribution rate due to the inclusion of additional state peace officers in the GWPORS. The actuary was asked to reevaluate the assumptions of the GWPORS. The actuary surmised that the Funded Status of the system would have been a

slight Actuarial Surplus instead of a slight Unfunded Actuarial Liability. The conclusion is that, based on the data, method, and assumptions contained in the 2002 Actuarial Valuation, including the modification to the assumed termination rates, the current statutory contribution rate is actuarially sound.

(3) State as a Nonemployer Contributor to Cost-Sharing Multiple-Employer Systems

MPORS – Municipal Police Officers Retirement System – The system, established in 1974 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation. The member contribution is 5.8% of salary for members employed prior to July 1, 1975; 7% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 8.5% of salary for members employed after June 30, 1979, and prior to July 1, 1997; and 9% for members hired on or after July 1, 1997, and members electing GABA. Employer contributions are 14.41% of MPORS-covered payroll. The State contributes 29.37% of compensation paid to members. The State's contribution is funded from the General Fund. Rights are vested after five years of membership service. Benefit eligibility is age 50 with at least 5 years of service, or at any age with at least 20 years of service. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

Beginning July 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 5 years of membership service and reached age 50. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues

employment after the DROP period ends they will again accrue membership service and service credit and the DROP account cannot be distributed until employment is formally terminated.

Legislation in 2003 amended the previous DROP provisions so that a DROP participant must have 20 years of service to participate in the DROP. This legislative change became effective April 9, 2003. Members with 20 years of service and previously ineligible to participate in the DROP became eligible to retroactively apply for DROP benefits.

FURS – Firefighters Unified Retirement System – This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a cost-sharing defined benefit plan with a special funding situation. The member contribution is 9.5% of compensation for members hired prior to July 1, 1997; and 10.7% for members hired after June 30, 1997, and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The state contribution is 32.61% of total annual compensation for all firefighters and is paid out of the General Fund. Benefit eligibility is 20 years regardless of age, or age 50 with at least 5 years of service. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation, plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% of final average compensation. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed firefighter in the city where last employed. Rights are vested after five years of membership service.

(4) State as a Nonemployer Contributor

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation. The state contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Benefit eligibility is age 55 with at least 20 years of service, or age 60 with at least 10 years of service.

The 2003 legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective 7/1/2003).

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

E. Long-term Contracts for Contributions

The 1993 Montana Legislature enacted House Bill 517 - Retirement Incentive Program (RIP) providing PERS-DBRP members (eligible for a service retirement) an

incentive to terminate between June 25, 1993, and December 31, 1993. Local government employers participated, through election, on or before June 1, 1993. The employer purchased, on the members behalf, one year of additional service for each five years of qualified service ("1 for 5"), up to a maximum of three years, for any retirement eligible member who terminated employment during the defined time period. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies). All payments were complete as of June 30, 2003.

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (Section 19-2-706, MCA) allowing state employees, eligible for a service retirement, whose positions have been eliminated, to have their employer purchase up to three years of "1 for 5" additional service. As of June 30, 2003, 280 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2003 totaled \$404,473. June 30, 2003, outstanding balances were \$451,741.

F. Actuarial Data

Actuarial valuations are performed every two years. Milliman USA prepared the July 2002 actuarial reports for the retirement systems, including TRS. Employee Benefit Resources, LLP, of Helena, MT, prepared the July 1, 1998, actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA, performed the actuarial valuation for TRS for July 1, 1998, and July 1, 2000. Milliman & Robertson, of Portland, OR, prepared the July 1, 2000, actuarial reports for the retirement systems, excluding TRS.

G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems

	HPORS	JRS
Annual pension cost	\$3,047	\$1,032
Contributions		
Employer	\$2,770	\$1,032
Employee	693	280
License and registration fees	309	
Actuarial valuation date	7/01/02	7/01/02
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	8.7 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.5%	4.5%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

Single Employer Systems

Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Obligation
HPORS			
06/30/01	3,006	101.6%	NONE
06/30/02	3,047	101.3%	NONE
06/30/03	3,191	100.9%	NONE
JRS			
06/30/01	944	100.0%	NONE
06/30/02	1,032	100.0%	NONE
06/30/03	1,052	100.0%	NONE

Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
PERS		
06/30/01	52,843	100.7%
06/30/02	55,369	100.5%
06/30/03	58,114	99.1%
MPORS		
06/30/01	9,149	100.1%
06/30/02	9,732	101.1%
06/30/03	10,196	101.0%
FURS		
06/30/01	7,854	98.6%
06/30/02	8,432	98.1%
06/30/03	8,740	100.8%
SRS		
06/30/01	2,159	103.1%
06/30/02	2,338	102.1%
06/30/03	2,435	101.7%
GWPORS		
06/30/01	1,339	101.9%
06/30/02	1,544	103.3%
06/30/03	1,803	101.8%
TRS		
06/30/01	51,524	100.0%
06/30/02	51,519	100.0%
06/30/03	53,277	100.0%

H. Schedules of Funding Progress

Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/98	59,531	78,722	19,191	75.62%	6,201	309.48%
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
07/01/02	81,734	94,850	13,116	86.17%	7,536	174.04%
JRS						
07/01/98	31,646	29,017	(2,629)	109.06%	3,144	(83.62)%
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%
07/01/02	44,963	30,882	(14,081)	145.60%	4,000	(352.03)%

Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/98*	2,128,065	2,300,328	172,263	92.51%	660,579	26.08%
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
07/01/02	3,076,781	3,077,764	983	99.97%	808,747	0.12%
MPORS						
07/01/98	94,908	173,642	78,734	54.66%	17,873	440.52%
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
07/01/02	143,516	226,827	83,311	63.27%	22,229	374.79%
FURS						
07/01/98	89,988	169,006	79,018	53.25%	15,104	523.15%
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
07/01/02	136,392	197,946	61,554	68.90%	17,953	342.86%
SRS						
07/01/98	92,160	81,077	(11,083)	113.67%	20,127	(55.06)%
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
07/01/02	138,590	121,625	(16,965)	113.95%	24,521	(69.19)%
GWPORS						
07/01/98	23,190	22,412	(778)	103.47%	7,839	(9.92)%
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
07/01/02	38,730	39,109	379	99.03%	17,151	2.21%
TRS						
07/01/98*	1,809,037	2,342,690	533,653	77.2%	529,795	100.7%
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%
07/01/02	2,484,800	2,980,100	495,300	83.4%	563,200	87.9%

* PERS July 1, 1998, results adjusted by actuary.

** TRS July 1, 1998, results adjusted for 1.5% guaranteed annual benefit adjustment and \$500 minimum benefit for legislation which passed in April 1999 and the new salary scale adopted in November 1998.

Nonemployer Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/98	13,941	18,354	4,413	75.96%	N/A	N/A
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A
07/01/02	19,254	26,808	7,554	71.82%	N/A	N/A

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2003, 66 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established retiree medical premiums vary between \$177 and \$537 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$28.60 and \$46.60 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2003, 3,173 retirees were covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$17,095,343 were recognized for postemployment health care benefits. Premium

contributions received from former employees amounted to \$13,051,876 leaving \$4,043,467 of claims paid in excess of premium revenue received by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$217 and \$566 per month and are revised annually. Medicare-eligible plan members are assumed to be insured by Medicare. After an annual \$575 deductible for non-Medicare-eligible retirees, the MUS plan reimburses 65% to 80% of the first \$10,000 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 65% to 80% for the first \$5,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2003, 1,414 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2003, estimated expenditures of \$6,188,319 were recognized for postemployment health care benefits. Of this amount, \$4,862,220 was paid by retirees through premiums, and the balance of \$1,326,099 was paid by the MUS.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools that are reported within the enterprise fund type and two component unit public entity risk pools. Primary government pools include Hail Insurance, Subsequent Injury, and the Montana University System (MUS) Group Benefits Plan Funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund).

Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,134 policies during the 2003 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$298,414 based on estimated claims through June 30, 2003. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually

paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,225 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2003, the amount of this liability was estimated to be \$2,363,565.

(3) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Blue Cross/Blue Shield of Montana is the claims administrator for the self-insured indemnity plan and an HMO plan. New West Health Services and Peak administers claims for the two other self-insured plans. Managed Care Montana (APS) has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Buck Consultants and estimated to be \$3,443,727 as of June 30, 2003, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(4) State Compensation Insurance (New Fund) – Liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At fiscal year-end, approximately 25,977 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must

pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2003, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2003, \$413,400,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of

capitalized acquisition costs in fiscal years ended June 30, 2003 and 2002, were \$1,474,338 and \$878,106, respectively. For the fiscal years ended June 30, 2003 and 2002, \$878,106 and \$389,051 of acquisition costs were amortized, respectively.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(5) State Compensation Insurance (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments was accumulated through an Old Fund Liability Tax. In 1999, the 56th Legislature determined that the fund was adequately funded and discontinued the OFLT.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2003, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2003, \$113,180,563 of unpaid claims and claim adjustment expenses were reported at a net present value of \$80,900,000, discounted at a 5.25% rate.

(6) Changes in Claims Liabilities For the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	<u>Hail Insurance</u>		<u>Subsequent Injury</u>		<u>MUS Group Benefits</u>	
	2003	2002	2003	2002	2003	2002
Primary government						
Unpaid claims and claim adjustment expenses at beginning of year	\$ 43	\$ 520	\$2,100	\$2,719	\$ 2,982	\$ 2,378
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	1,696	2,076	-	-	33,675	29,642
Increase (decrease) in provision for insured events of prior years	(6)	(395)	797	(352)	461	604
Total incurred claims and claim adjustment expenses	1,690	1,681	797	(352)	34,136	30,246
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(1,392)	(2,034)	(35)	-	(33,674)	(29,642)
Claims and claim adjustment expenses attributable to insured events of prior years	(43)	(124)	(498)	(267)	-	-
Total payment	(1,435)	(2,158)	(533)	(267)	(33,674)	(29,642)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 298	\$ 43	\$2,364	\$2,100	\$ 3,444	\$ 2,982

	<u>State Compensation Insurance (New Fund)</u>		<u>State Compensation Insurance (Old Fund)</u>	
	2003	2002	2003	2002
Component units				
Unpaid claims and claim adjustments expenses at beginning of year	\$346,400	\$325,900	\$128,902	\$148,476
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	116,598	84,370	-	-
Increase (decrease) in provision for insured events of prior years	35,366	5,361	(1,448)	(6,690)
Total incurred claims and claim adjustment expenses	151,964	89,731	(1,448)	(6,690)
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(22,982)	(16,693)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(61,982)	(52,538)	(14,273)	(12,884)
Total payments	(84,964)	(69,231)	(14,273)	(12,884)
Total unpaid claims and claim adjust. exp. at end of the year	\$413,400	\$346,400	\$113,181	\$128,902

(7) Risk Management Trend Information – The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands).

Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

(Table presented on next page)

	1994	1995	1996	State Compensation Insurance (New Fund)					2000	2001	2002	2003
1. Premiums and investment revenue												
Earned	\$233,699	\$192,548	\$136,432	\$103,780	\$89,010	\$80,594	\$89,213	\$113,226	\$125,437			\$129,608
Ceded	319	269	519	348	303	260	855	2,952	(465)			5,654
Net earned	\$233,380	\$192,279	\$135,913	\$103,432	\$88,707	\$80,334	\$88,358	\$110,274	\$125,902			\$123,954
2. Unallocated expenses including overhead												
\$ 8,637		\$ 14,772	\$ 17,839	\$ 13,006	\$14,831	\$19,472	\$22,718	\$ 27,555	\$ 31,020			\$ 36,484
3. Estimated losses and expenses end of accident year												
Incurred	\$199,890	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560			\$110,153
Ceded												
Net incurred	\$199,890	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560			\$110,153
4. Net paid (cumulative) as of:												
End of policy year	\$ 18,693	\$ 18,137	\$ 15,818	\$ 12,589	\$12,943	\$13,723	\$13,177	\$ 14,140	\$ 16,693			\$ 22,982
One year later	45,947	40,473	32,890	28,451	28,222	29,976	29,218	32,888	38,185			
Two years later	60,971	52,073	42,361	35,706	35,753	39,298	37,555	45,218				
Three years later	67,576	58,722	47,283	39,860	41,004	45,748	43,649					
Four years later	72,212	62,419	50,267	43,105	44,478	49,984						
Five years later	75,799	65,919	52,791	46,478	47,584							
Six years later	78,306	68,541	54,962	48,505								
Seven years later	80,861	70,816	57,654									
Eight years later	83,150	72,803										
Nine years later	85,238											
5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ 6,235	\$ 259	\$ 1,197	\$ -	\$ -	\$ -			\$ -
6. Re-estimated net incurred losses and expense:												
End of policy year	\$199,890	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$63,807	\$65,957	\$ 68,267	\$ 81,560			\$110,153
One year later	184,920	124,123	88,923	67,235	64,308	64,348	66,421	71,094	86,799			
Two years later	135,472	107,074	77,286	59,054	60,467	66,660	66,662	81,053				
Three years later	116,756	95,456	73,864	60,811	61,989	69,345	70,302					
Four years later	107,656	94,517	74,022	64,439	64,944	72,435						
Five years later	105,052	92,231	73,197	59,079	67,312							
Six years later	106,039	91,771	74,329	60,528								
Seven years later	105,668	92,637	76,955									
Eight years later	105,606	93,637										
Nine years later	107,039											
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (92,851)	\$ (70,991)	\$ (18,112)	\$ (15,539)	\$ 2,329	\$ 7,790	\$ 4,345	\$ 12,786	\$ 5,239			\$ -

B. Entities Other Than Pools

(1) Group Employee Comprehensive Medical and Dental Plan – With the exception of vision care services, this plan is fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. Vision care services are insured by the Vision Service Plan. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Division, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2003, estimates for claims liabilities, which include incurred but not reported claims, were \$9,591,000 based on a formula provided by Buck Consultants, a consulting actuarial firm, of which \$6,051,000 is estimated to be paid in fiscal year 2004.

In addition, at June 30, 2003, the Group Employee Medical and Dental Plan established a liability for the estimated dollar amount of future claim reimbursements for claims incurred in the month following the month of termination for members who continued to be covered by the State plan since July 31, 1998 through the current date. On August 1, 1998, the plan changed its effective coverage period for new members, to include the first month of employment with the State, and provided that coverage terminates on the last day of the month in which the member terminates his participation in the State plan. Prior to this change, new members were not eligible to participate in the health plan until the second month of their employment, after premiums had been collected through the payroll process, and coverage extended through the month subsequent to the month in which they terminated their membership. Members who are grandfathered into the coverage period that was recognized prior to August 1, 1998, retain the benefit of claim coverage through the last day

of the month following that month in which they terminate their membership without paying premiums for this coverage. Prior to fiscal year 2003, the State had not booked a liability for these estimated claims. Instead they were tracked as part of the unreserved fund balance. At June 30, 2003, a liability of \$1,896,000 was reported in the financial statements in recognition of the grandfathered claims; \$137,400 of which is estimated to be paid in fiscal year 2004.

A combined liability of \$11,487,000, for incurred but not reported claims and grandfathered claims, is reported in the accompanying financial statements. The current portion of this estimated liability is \$6,188,000 as of June 30, 2003.

(2) Property & Casualty Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the \$250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.4 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance internal service fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1993 through June 30, 2003, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2003, estimated claims liability of \$30,927,035 is reported in the accompanying financial statements.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		Prop. & Casualty Insurance	
	2003	2002	2003	2002
Amount of claims liabilities at the beginning of each fiscal year	\$ 9,164	\$ 7,181	\$29,848	\$25,234
Incurred claims:				
Provision for insured events of the current year	72,085	66,434	7,544	6,877
Increases (decreases) in provision for insured events of prior years	2,323	1,983	(602)	3,286
Total incurred claims	74,408	70,417	6,942	10,163
Payments:				
Claims attributable to insured events of the current year	(66,300)	(61,440)	(742)	(633)
Claims attributable to insured events of prior years	(5,785)	(6,994)	(5,121)	(4,916)
Total payments	(72,085)	(68,434)	(5,863)	(5,549)
Total claims liability at end of each fiscal year	\$ 11,487	\$ 9,164	\$30,927	\$29,848

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2003, the Department of Transportation had contractual commitments of approximately \$217.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2003, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$8.1 million for capital projects construction. The primary government will fund \$6.1 million of these projects, with the remaining \$2.0 million coming from the state university system.

C. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-

end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

Primary Government	Amount
Enterprise funds	
Historical Society Publications	\$ 5
Lottery	4
Subtotal-enterprise funds	\$ 9
Internal service funds	
DEQ Indirect Cost Pool	\$100
Info Tech Services Division	87
Building and Grounds	56
FWP Equipment	38
L&I Central Services	29
Admin Supply	28
FWP Warehouse Inventory	11
Employee Group Benefits	5
Payroll Processing	2
Commerce Central Services	1
Subtotal-internal service funds	\$357
Total-primary government	\$366

Component units

Facility Finance Authority	\$ 22
Total-component units	\$ 22

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2003, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units			
	Governmental Activities	State Comp Insurance (New Fund)	Montana State University	University of Montana	Total
2004	\$1,569	\$180	\$112	\$ 598	\$ 890
2005	814	180	29	426	635
2006	538	120	21	216	357
2007	294	23	10	179	212
2008	51	-	-	13	13
2009-2013	288	-	-	-	-
Total minimum pmts	3,554	503	172	1,432	2,107
Less: interest	(268)	(33)	(21)	(180)	(234)
Present value of minimum payments	\$3,286	\$470	\$151	\$1,252	\$1,873

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2003 totaled \$11,852,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2004	\$10,583	\$ 656
2005	9,398	583
2006	8,115	433
2007	7,464	185
2008	7,129	23
2009-2013	24,444	-
2014-2018	9,595	-
2019-2023	2,215	-
Total future rental payments	\$78,943	\$1,880

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The State issued tax and revenue (TRANs) and bond anticipation notes (BANs) during fiscal year 2003. The proceeds of the tax anticipation notes were used to meet anticipated cash flow deficits during the fiscal year. The bond anticipation notes were issued to provide funds for loans to private water groups and associations for water projects until the related Department of Natural Resources and Conservation Series 2003A Special Revenue bonds were issued. Both the TRANs and the BANs were fully repaid by the end of the fiscal year. The following schedule summarizes the above activity for the year ended June 30, 2003 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
TRANs	\$-	\$92,800	\$92,800	\$-
BANs	\$-	\$1,450	\$1,450	\$-

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$120 million as amended by the 2003 Legislature. Previously, INTERCAP bonds could not aggregate more than \$80 million through June 30, 2011 and then \$75 million thereafter. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2003, were as follows (in thousands):

<u>Series</u>	<u>Amount Issued</u>	<u>Balance June 30, 2003</u>
1992	\$6,500	\$ 6,075
1994	7,500	6,975
1995	7,500	7,115
1997	10,000	9,740
1998	12,500	12,285
2000	15,000	15,000
2003	15,000	15,000
Total		<u>\$72,190</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2003 (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Demand bonds	\$57,290	\$15,000	\$100	\$72,190

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2003, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (12)	Principal Payments		Balance June 30, 2003
				FY 2004	In Year of Maturity (7)	
General obligation bonds						
Water Development Program (1)	1989B	\$ 500	8.55	\$ 65	\$ 65 (2004)	\$ 65
Energy Conservation Program (2)	1993A	1,500	2.5-4.75	180	180 (2004)	180
Long-Range Bldg Program	1993B	3,185	2.5-4.25	310	310 (2004)	310
Renewable Resource Program (1)	1993C	750	3.5-5.65	95	95 (2004)	95
Wastewater Treatment Works						
Revolving Fund	1994B	2,200	4.2-6.1	90	180 (2016)	1,680
Long-Range Bldg Program	1994C	21,955	5.125-7.0	950	1,000 (2005)	1,950
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	190	200 (2005)	390
Energy Conservation Program (2)	1996A	1,650	3.5-4.4	180	195 (2006)	560
Wastewater Treatment Works						
Revolving Fund	1996C	2,765	3.75-5.75	125	120 (2017)	2,165
Renewable Resource Program (1)	1997A	2,000	6.8-8.0	110	210 (2013)	1,545
Long-Range Bldg Program	1997B	12,640	4.5-5.0	790	595 (2018)	9,135
Wastewater Treatment Works						
Revolving Fund	1998A	3,510	3.75-5.15	135	260 (2019)	3,020
Long-Range Bldg Program	1998B	34,545	3.5-4.85	1,375	2,555 (2018)	28,355
Information Technology	1998C	41,390	4.5-5.0	3,455	4,075 (2008)	18,785
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	100	1,720 (2015)	14,265
Energy Conservation Program (2)	1998E	1,250	3.6-4.6	125	150 (2008)	680
Renewable Resource Program (1)	1999	1,035	6.0-6.5	50	105 (2015)	895
Long-Range Bldg Program	1999C	16,990	4.0-5.0	640	1,250 (2019)	14,425
Drinking Water Revolving Fund (10)	1998F	3,065	3.6-4.85	125	230 (2019)	2,720
Drinking Water Revolving Fund (10)	2000A	2,990	4.25-5.6	100	240 (2021)	2,805
Water Pollution Control Revolving						
Fund (10)	2000B	3,325	4.25-5.6	105	270 (2021)	3,125
Long-Range Bldg Program	2000C	17,195	5.0-5.55	545	1,320 (2020)	14,930
Information Technology	2000D	18,000	5.0-5.25	1,650	2,250 (2010)	13,550
Long-Range Bldg Program	2001B	11,430	4.1-5.75	390	830 (2021)	10,265
Information Technology	2001C	1,600	3.85-4.2	140	185 (2011)	1,285
Energy Conservation Program (2)	2001D	1,250	3.85-4.2	110	145 (2011)	1,000
Renewable Resource Program (1)	2001E	1,040	5.2-6.8	45	105 (2017)	995
Drinking Water Revolving Fund (10)	2001G	3,190	4.0-5.0	110	235 (2022)	3,095
Water Pollution Control Revolving						
Fund (10)	2001H	2,690	4.0-5.0	95	200 (2022)	2,610
Long-Range Bldg Program	2002B	10,475	3.35-4.7	365	730 (2023)	10,475
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	65	200 (2023)	2,500
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,350	1,685 (2014)	15,805
Long-Range Bldg Program	2003A	9,730	2.375-4	-	655 (2024)	9,730
Energy Conservation Program (2)	2003B	1,250	2.0-3.0	-	145 (2014)	1,250
Renewable Resource Program						
Refunding (1)	2003C	1,970	1.45-5.25	-	90 (2019)	1,970
Water Pollution Control Revolving						
Fund (10)	2003D	2,730	2.0-3.75	-	225 (2019)	2,730
Drinking Water Revolving Fund (10)	2003E	1,675	2.0-3.75	-	140 (2019)	1,675
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	-	2,310 (2017)	26,610
Total general obligation bonds		\$302,840		\$14,160		\$227,625
Special revenue bonds						
Water Conservation (3)	-	\$ 50	5.0	\$ 2	\$ 1 (2012)	\$ 20
Dept of Transportation Refunding	1993	72,375	2.5-5.2	3,705	3,705 (2004)	3,705
Developmental Center Project (6)	1994	13,100	4.4-6.4	415	1,015 (2019)	10,665
Renewable Resource Program						
Refunding (4)	1996A	14,985	3.7-5.2	1,110	110 (2017)	8,170

<u>Governmental Activities</u>	Series	Amount Issued	Interest Range (%) (12)	Principal Payments		Balance June 30, 2003
				FY 2004	In Year of Maturity (7)	
State Hospital Project (6)	1997	25,915	4.0-5.05	770	1,820 (2022)	23,130
Renewable Resource Program (4)	1997A	1,205	6.0-7.3	40	110 (2018)	1,035
Renewable Resource Program (4)	1997B	2,660	3.75-5.375	100	210 (2018)	2,225
Renewable Resource Program (4)	2001A	420	3.65-5.59	15	30 (2021)	390
Renewable Resource Program (4)	2001B	1,750	5.2-7.1	50	150 (2021)	1,655
Renewable Resource Program Refunding (4)	2001C	12,155	2.55-4.3	1,685	790 (2013)	8,830
Broadwater Power Proj Refunding (4)	2001D	21,450	2.25-4.7	1,025	1,795 (2018)	20,505
Renewable Resource Program (4)	2001E	885	2.1-4.85	35	65 (2022)	860
Renewable Resource Program (4)	2001F	900	3.3-6.2	30	75 (2022)	880
Renewable Resource Program (4)	2003A	3,000	1.05-4.05	-	215 (2024)	3,000
Total special revenue bonds		<u>\$170,850</u>		<u>\$ 8,982</u>		<u>\$ 85,070</u>

Notes payable (17)

Middle Creek Dam Project (5)	\$ 3,272	8.125	\$ 44	124 (2034)	\$ 2,930
Tongue River Dam Project (9)	11,300	-	290	290 (2038)	10,141
Dept of Justice INTERCAP Loan (8)	2,796	Variable	269	149 (2012)	2,420
Dept of Environmental Quality INTERCAP Loan (8)	2,212	Variable	214	58 (2013)	1,573
Dept of Corrections Resident Accounting System Loan (11)	320	5.73	67	71 (2005)	139
Office of the Commissioner of Higher Education INTERCAP Loan (8)	372	Variable	100	105 (2005)	206
Dept of Transportation (Motor Pool) INTERCAP Loan (8)	9,214	Variable	1,703	7 (2009)	3,538
Historical Society INTERCAP Loan (8)	200	Variable	73	75 (2005)	148
Dept of Natural Resources INTERCAP Loan (8)	243	Variable	29	37 (2009)	204
Total notes payable	<u>\$ 29,929</u>		<u>\$ 2,789</u>		<u>\$ 21,299</u>
					333,994
Deferred amount on refunding					(4,594)
Unamortized discount					(182)
Unamortized premium					1,590
Total governmental activities	<u>\$503,619</u>		<u>\$25,931</u>		<u>\$330,808</u>

Business-type Activities

Bonds/notes payable

State Lottery Note Payable		\$ 5,025	5.12	\$ 1,110	\$1,110 (2004)	\$ 1,110
<u>Economic Development Bonds (13)</u>						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1998	4,976	6.60-7.75	520	130 (2014)	1,708
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (15)	1991	6,234	4.75-6.5	287	294 (2005)	581
Conservation Reserve Enhancement Program (CRP Bonds) (16)		6,977	6-8	1,270	30 (2011)	6,977
Subtotal economic dev bonds		18,187		2,077		9,266
Total business-type activities		\$ 23,212		\$ 3,187		\$ 10,376

- All Water Development Program Bonds and the Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
- Bonds sold to Farmers Home Administration.
- Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$236,731 of interest owed.
- Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.

- (7) Year of maturity refers to fiscal year.
- (8) Montana Board of Investments loans to departments from the INTERCAP loan program.
- (9) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (10) Provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water system development loans to state political subdivisions.
- (11) Norwest loan to provide funds for the development of a Y2K-compliant resident accounting system.
- (12) The interest range is over the life of the bonds.
- (13) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) – This program is directed by the nine-member Board of Investments, which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Reserve Account E in an amount to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana school districts. The School District Refunding Bonds, and the interest thereon, are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or of interest on the bonds.
- (16) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.
- (17) The INTERCAP loan balances may consist of several loans with varying maturities. The principal payment in the year of maturity refers to the total principal payments due on all loans in the latest year of maturity.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2003, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 14,160	\$ 9,827	\$ 8,982	\$ 3,831	\$ 2,789	\$ 273
2005	17,080	9,614	5,632	3,531	2,076	204
2006	17,680	8,844	5,392	3,315	1,529	152
2007	17,850	8,051	4,697	3,105	1,152	118
2008	18,325	7,230	4,063	2,914	836	94
2009-2013	67,370	25,859	23,314	11,428	3,261	282
2014-2018	57,220	10,469	23,020	5,947	1,832	165
2019-2023	17,285	1,599	9,755	1,183	1,928	133
2024-2028	655	13	215	4	2,041	94
2029-2033	-	-	-	-	2,185	44
2034-2038	-	-	-	-	1,670	2
Total	\$227,625	\$81,506	\$85,070	\$35,258	\$21,299	\$1,561

Governmental activities notes payable includes INTERCAP loans with an interest rate that varies based on the underlying bond rate of the Montana Board of Investments Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) and is adjusted annually.

Business-type Activities

Year Ended June 30	Economic Development Bonds		State Lottery	
	Principal	Interest	Principal	Interest
2004	\$2,077	\$ 587	\$1,110	\$36
2005	1,785	549	-	-
2006	1,354	431	-	-
2007	1,326	321	-	-
2008	1,415	214	-	-
2009-2013	1,178	231	-	-
2014	131	5	-	-
Total	\$9,266	\$2,338	\$1,110	\$36

Debt service requirements of discretely presented component units at June 30, 2003, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 9,169	\$ 34,834	\$ 5,072	\$ 4,154	\$ 4,176	\$ 6,884
2005	9,662	34,220	5,286	3,927	4,440	6,709
2006	10,041	33,722	5,324	3,671	4,362	6,518
2007	10,875	33,225	4,141	3,434	4,497	6,328
2008	11,558	32,676	3,057	4,475	4,609	6,128
2009-2013	70,113	153,173	14,995	21,497	24,503	27,382
2014-2018	90,147	135,086	23,880	10,678	30,429	21,037
2019-2023	113,355	104,544	24,745	3,721	39,430	11,892
2024-2028	144,635	67,912	3,045	263	14,005	2,441
2029-2033	122,965	25,808	-	-	5,000	719
2034-2038	25,065	4,857	-	-	-	-
2039-2043	7,435	923	-	-	-	-
Total	\$625,020	\$660,980	\$89,545	\$55,820	\$135,451	\$96,038

Montana State University and the University of Montana bonds/notes payable includes INTERCAP loans with an interest rate that varies based on the underlying bond rate of the Montana Board of Investments Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) and is adjusted annually.

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2003, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$ 214,135	\$ 72,745	\$ 59,255	\$ 227,625	\$ 14,160	\$ 213,465
Special revenue bonds	100,337	3,000	18,267	85,070	8,982	76,088
Notes payable	23,203	1,207	3,111	21,299	2,789	18,510
	337,675	76,952	80,633	333,994	25,931	308,063
Deferred amount on refunding	(987)	(3,981)	(374)	(4,594)	-	(4,594)
Unamortized discount	(130)	(65)	(13)	(182)	-	(182)
Unamortized premium	-	1,720	130	1,590	-	1,590
Total bonds/notes payable	336,558	74,626	80,376	330,808	25,931	304,877
Other liabilities						
Lease/installment purchase payable (1)	4,532	1,140	2,386	3,286	1,431	1,855
Compensated absences payable (2)	66,456	42,533	37,856	71,133	37,843	33,290
Early retirement benefits payable (2)	336	95	115	316	58	258
Arbitrage rebate tax payable (2)	1,451	44	1,348	147	62	85
Estimated insurance claims (2)	39,012	81,349	77,948	42,413	13,472	28,941
Total other liabilities	111,787	125,161	119,653	117,295	52,866	64,429
Total governmental activities						
Long-term liabilities	\$ 448,345	\$199,787	\$200,029	\$ 448,103	\$ 78,797	\$ 369,306
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 11,749	\$ 477	\$ 2,960	\$ 9,266	\$ 2,077	\$ 7,189
State Lottery	2,165	-	1,055	1,110	1,110	-
Total bonds/notes payable	13,914	477	4,015	10,376	3,187	7,189
Other liabilities						
Compensated absences payable	978	619	500	1,097	503	594
Arbitrage rebate tax payable	172	70	72	170	73	97
Estimated insurance claims	5,125	36,622	35,642	6,105	3,975	2,130
Total other liabilities	6,275	37,311	36,214	7,372	4,551	2,821
Total business-type activities						
Long-term liabilities	\$ 20,189	\$ 37,788	\$ 40,229	\$ 17,748	\$7,738	\$ 10,010

- (1) Governmental activities lease/installment purchase payable beginning balance has been restated to reflect leases that existed prior to fiscal year 2003, that were not previously recorded.
- (2) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

Long-term liability activity of discretely presented component units for the year ended June 30, 2003, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	\$ 689,923	\$144,967	\$210,801	\$ 624,089	\$ 9,169	\$ 614,920
Montana State University	96,592	2,146	5,422	93,316	5,072	88,244
University of Montana	116,988	19,955	3,466	133,477	4,176	129,301
Total bonds/notes payable	903,503	167,068	219,689	850,882	18,417	832,465
Other liabilities						
Lease/installment purch pay (1)	1,773	1,063	963	1,873	763	1,110
Compensated absences pay	39,328	19,922	17,394	41,856	17,939	23,917
Arbitrage rebate tax payable	1,503	478	844	1,137	463	674
Estimated insurance claims	437,301	151,964	94,965	494,300	97,783	396,517
Due to federal government	28,684	494	21	29,157	-	29,157
Total other liabilities	508,589	173,921	114,187	568,323	116,948	451,375
Total discretely presented component units						
Long-term liabilities	\$1,412,092	\$340,989	\$333,876	\$1,419,205	\$135,365	\$1,283,840

(1) Discretely presented component unit lease/installment purchase payable beginning balance has been restated to reflect duplicate leases that were incorrectly recorded in fiscal year 2002.

F. Refunded and Early Retired Bonds

Primary Government

Pre-payments and Early Retirements

During fiscal year 2003, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: \$35,000 of Series 1989B Water Development Program, \$70,000 of Series 1991A Water Development Program, \$140,000 of Series 1996B Renewable Resource Development and \$110,000 of Series 1996E Renewable Resource Development (Series 1991A, 1996B and 1996E were also refunded in the fiscal year – see below). DNRC also used current available resources to redeem Series 1994E Renewable Resource Program general obligation bonds in the amount of \$200,000.

During fiscal year 2003, DNRC used current available resources to make the following pre-payments on special revenue bonds: \$150,000 of Series 2001B Renewable Resource Program and \$945,000 of Series 2001D Renewable Resource Program.

Advance Refundings

On October 15, 2002, the Montana Department of Administration (DofA) issued \$15,805,000 of Series 2002D General Obligation Long-Range Building Program Refunding bonds to advance refund \$14,920,000 of Series 1994A General Obligation Long-Range Building Program bonds. The net proceeds of \$15,647,431 (including an original issue premium of \$50,871 and after payment of \$208,439 in underwriting

fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1994A General Obligation Long-Range Building Program bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$717,498 and an economic gain of \$613,645.

On June 15, 2003, DNRC issued \$1,970,000 of 2003C General Obligation Renewable Resource Program Refunding bonds. Proceeds from the 2003C issuance, in the principal amount of \$915,000 was used to advance refund \$245,000 of Series 1991A General Obligation Water Development bonds, \$300,000 of Series 1996B General Obligation Renewable Resource Program bonds and \$370,000 of 1996E General Obligation Renewable Resource Program bonds. The proceeds of \$915,000 plus an additional \$104,852 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1991A, 1996B and 1996E bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$67,036 and an economic gain of \$64,406.

On June 15, 2003, DofA issued \$26,610,000 of Series 2003G General Obligation Long-Range Building

Program Refunding bonds to advance refund \$3,050,000 of Series 1992 General Obligation Refunding Long-Range Building Program bonds and \$23,930,000 of Series 1996D General Obligation Long-Range Building Program bonds. The net proceeds of \$27,845,351 (including a reoffering premium of \$1,562,426 and after payment of \$327,074 in underwriting fees and other issuance costs) plus an additional \$2,388,098 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1992 and 1996D bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$1,533,677 and an economic gain of \$1,296,821.

Deferred loss on primary government refundings at June 30, 2003, was \$4,594,000.

Prior-year Defeasance of Debt

In prior years, the State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2003, \$51,120,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Current Refundings

Housing Authority – On April 30, 2003, Series 2003A bonds were issued in the amount of \$52,520,000, the proceeds of which were used to refund Series 1992RA bonds on June 1, 2003. The refunding resulted in an increase of debt service to maturity of \$18,358,000 and an economic gain of \$2,429,000. The refunding issue is at a substantially lower interest rate, but a negative cash flow resulted because the debt service payments of the refunding debt were extended for 10 years beyond the debt service payments of the refunded debt.

Deferred loss on Housing Authority refundings at June 30, 2003, was \$1,461,000.

Prior-year Defeasance of Debt

In prior years, Montana State University and the University of Montana defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2003, \$5,640,000 and \$53,429,655 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) – The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2003, industrial revenue bonds outstanding aggregated \$214.6 million.

(2) Beginning Farm Loan Program – The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2003, was as follows: Hershberger Project – issued \$129,412; outstanding \$129,412.

(3) Facility Finance Authority (FFA) - Component Unit – The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2003, revenue bonds outstanding aggregated \$604 million, and notes payable outstanding aggregated \$18 million.

The Board of Investments (BOI) and the FFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the FFA funds sufficient to insure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise then there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2003, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Due From Other Funds						
Coal SeveranceTax Permanent	\$ -	\$-	\$ -	\$ -	\$ -	\$ -
Federal Special Revenue	-	-	-	29	1	-
General Fund	6,153	1	1,152	-	263	-
Internal Service Funds	34	6	1,358	2,046	366	-
Land Grant Permanent	-	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	24	122	53	-
Nonmajor Governmental Funds	-	-	75	252	208	-
State Special Revenue	-	-	826	9,128	19	10,654
Unemployment Insurance	-	-	3	-	-	-
Total	\$6,187	\$7	\$3,438	\$11,577	\$910	\$10,654

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Unemployment Insurance	Total
Due From Other Funds (continued)					
Coal SeveranceTax Permanent	\$ -	\$ 1	\$ -	\$ -	\$ 1
Federal Special Revenue	-	34	799	633	1,496
General Fund	8,424	19	2,072	1	18,085
Internal Service Funds	124	81	2,793	10	6,818
Land Grant Permanent	-	28	203	-	231
Nonmajor Enterprise Funds	1	-	29	-	229
Nonmajor Governmental Funds	-	303	17	-	855
State Special Revenue	109	2,762	-	-	23,498
Unemployment Insurance	-	-	-	-	3
Total	\$8,658	\$3,228	\$5,913	\$644	\$51,216

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2003, consisted of the following (in thousands):

	Interfund Loans Payable					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	
Interfund Loans Receivable						
Federal Special Revenue	\$ -	\$ -	\$ -	\$111	\$ 80	\$ 191
General Fund	22,782	2,500	-	-	20,086	45,368
Internal Service Funds	100	-	250	-	184	534
Nonmajor Enterprise Funds	105	-	-	-	-	105
State Special Revenue	37,337	1,532	-	255	-	39,124
Total	\$60,324	\$4,032	\$250	\$366	\$20,350	\$85,322

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements.

Advances to/from other funds at June 30, 2003, consisted of the following (in thousands):

	Advances From Other Funds				Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	
Advances To Other Funds					
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$48,429	\$48,429
Federal Special Revenue	-	300	-	-	300
General Fund	100	-	-	-	100
Nonmajor Enterprise Funds	75	255	-	-	330
Nonmajor Governmental Funds	-	-	-	3,188	3,188
State Special Revenue	76	-	10,496	-	10,572
Total	\$251	\$555	\$10,496	\$51,617	\$62,919

D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2003, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	\$ -	\$ -	\$36,298	\$ -	\$ -	\$ 780
Economic Development Bonds	-	-	-	297	-	-
Federal Special Revenue	-	-	692	-	-	5,596
General Fund	-	-	-	279	52	19,348
Internal Service Funds	-	8	400	-	-	590
Land Grant Permanent	-	-	-	-	-	809
Nonmajor Enterprise Funds	-	-	24,251	95	-	-
Nonmajor Governmental Funds	-	164	-	933	-	3,440
State Special Revenue	3,307	153	1,744	475	13	10,757
Unemployment Insurance	-	4,315	-	-	-	-
Total	\$3,307	\$4,640	\$63,385	\$2,079	\$65	\$41,320

	State Special Revenue	Total
Transfers Out (continued)		
Coal Severance Tax Permanent	\$ 4,500	\$ 41,578
Economic Development Bonds	-	297
Federal Special Revenue	23,036	29,324
General Fund	14,822	34,501
Internal Service Funds	1	999
Land Grant Permanent	54,003	54,812
Nonmajor Enterprise Funds	3,472	27,818
Nonmajor Governmental Funds	19,404	23,941
State Special Revenue	-	16,449
Unemployment Insurance	-	4,315
Total	\$119,238	\$234,034

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets as found on the combining operating statements for June 30, 2003, (in thousands):

Fund Type/Fund	Deficit
<u>Capital projects funds</u>	
Capital Land Grant	\$ (74)
<u>Enterprise funds</u>	
Subsequent Injury	\$ (410)
<u>Internal service funds</u>	
Administration Insurance	\$(33,651)
OPI – Central Services	\$ (17)
Justice – Legal Services	\$ (82)
<u>Pension (and other employee benefit) trust funds</u>	
Voluntary Employee Benefit Association	\$ (153)

The net assets deficit in the Administration Insurance and Subsequent Injury funds are due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of these funds.

NOTE 14. RESERVED FUND BALANCES

Coal Tax Trust Permanent Fund – The reserve for trust principal is comprised of the following: Permanent Coal Tax Trust \$552,415 and the Treasure State Endowment Fund \$126,536 (in thousands).

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 59.31% of the Regents' outstanding loan volume, or \$473,311,712, is held by MHESAC. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF), and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. Lewis & Clark County owns the building that houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, SAF has the option to purchase the building. OCHE paid SAF during fiscal year 2003 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State; equipment leases, computer

maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2003 amounted to \$542,947. SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2003, SAF paid OCHE a total of \$214,535.

There is a foundation affiliated with each university and college unit that solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity, each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff, and related office expenses for an annually contracted fee. The units paid their foundations approximately \$1,665,189 in fiscal year 2003. In return the universities received from their foundations approximately \$15,435,726 during fiscal year 2003 for scholarships and academic/institutional support. In addition to support from their affiliated foundations, the University of Montana-Missoula, University of Montana-Western, Montana State University-Billings, and Montana State University-Bozeman received a total of \$4,128,978 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

The FWP Foundation is affiliated with the Department of Fish, Wildlife & Parks. Its purpose is to provide private support for the efforts of the department and to take a leading role in insuring the protection of Montana's natural, cultural, and recreational resources for future generations. In fiscal year 2003, the department provided \$71,500 in support of the

Foundation, and the Foundation provided \$13,000 to the department.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association \$1 per member per year to maintain its membership as well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis and consulting services performed by Association staff on behalf of member employers

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The State of Montana is involved in a lawsuit with the potential for substantial recovery of monetary relief against private parties. State of Montana v. Atlantic Richfield Co., No CV-83-317-H-PHG(D.Mont.), is a case where natural resource damage claims have been asserted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, with respect to environmental injury to Clark Fork River Basin. The State and Atlantic Richfield settled a portion of the case for \$215 million, but unresolved is a claim by the State for \$180 million. Atlantic Richfield filed a counterclaim against the State, the amount of which is unspecified and therefore could reduce or exceed the State's remaining claim. The State believes it has meritorious defenses to the counterclaim. Any recovery in this litigation must be used under federal and state law to further reclamation and recovery efforts or to offset attorney fees and assessment costs incurred by the State.

In Travis D., et al. v. Eastmont Human Services Center, et al., filed in the United States District Court, District of Montana, Helena Division, Civil Action No. CV 96-63-H-CCL, plaintiffs allege that the State of Montana, in its operation of the Eastmont Human Services Center and the Montana Development Center, is not placing residents in the "least restrictive environment." In addition, plaintiffs' second amended complaint, dated November 2, 2001, expanded their claims to demand services for those Medicaid eligible recipients who are "at risk" of being institutionalized or on a "waiting list" for services but cannot be served due to limited funding

provided by the Montana legislature for the "home and community services program" for the developmentally disabled. Their claims are based upon alleged violations of the Americans with Disabilities Act, Title XIX of the Social Security Act (Medicaid), and a constitutional equal protection and due process. The case has been certified by the Court as a class action but limited to a more narrow group of individuals than requested by the plaintiffs. The class, by Court certification, includes those individuals who are patients at Eastmont and MDC or who have been committed to those facilities since 1996. Portions of the case have been appealed to the Ninth Circuit Federal Court of Appeals. A trial on the remaining issues is scheduled for September 2004. The amount of loss in monetary terms (based on the amended complaint) is estimated at \$7 million dollars, all of which is General Fund.

In Swingley, et al. v. Montana Highway Patrol, filed in Lewis and Clark County, Highway Patrol officers brought an administrative wage claim seeking payment for overtime hours. In this case, the court held that there was a waiver of sovereign immunity and, therefore, the Fair Labor Standards Act (FLSA) applies. If the class is defined based on the FLSA statute of limitations, that class includes in excess of 200 officers and seeks overtime compensation for all lunch hours for a period of 3 ½ years, and seeks to have overtime and retirement contributions and benefits recalculated based on the contention that subsistence pay which was to cover meals, travel, uniform maintenance and a home telephone for each officer should have been included in the officers' base pay. Depending upon the size of the class as defined by the court, the State's potential exposure is \$9 million to \$20 million.

B. Federal Contingencies

Federal Financial Assistance – The State receives federal financial assistance for specified purposes, which is subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 2003.

USDA Commodities – In fiscal year 2003, the State distributed \$7,483,780 in commodities. The value of the commodities stored in the State's warehouses was \$2,579,050 at June 30, 2003, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Commitment Fees – The Board of Investments (BOI) and the Facility Finance Authority (FFA) have entered into a capital reserve account agreement for certain

bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the FFA funds sufficient to insure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2003, was \$36,118,317.

The BOI has issued Municipal Finance Consolidation bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2003, was \$74,478,374.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2003, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	\$ 2,604	\$474	\$3,941	\$75	\$788
Oil & gas	1,676	-	-	-	-
Corporation tax	20,857	-	-	-	-
Total	\$25,137	\$474	\$3,941	\$75	\$788

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2003. The corporations have appealed the decision. As of June 30, 2003, these include \$5,535,000 of General Fund corporation tax refunds.

Certain companies have protested property taxes that are not reported on the State's financial statements as of June 30, 2003. As of June 30, 2003, these include \$6,400,000 of General Fund property taxes.

On October 28, 2003, the State of Montana issued \$8.725 million of general obligation refunding bonds, Series 2003H.

On October 30, 2003, the State of Montana issued \$73.4 million in tax and revenue anticipation notes.

On November 6, 2003, the Montana Board of Housing issued \$40.5 million in bonds under the Single Family Program bonds, Series 2003C.

On December 1, 2003, \$53.14 million of Montana Board of Housing, Single Family I Indenture bonds were redeemed with prepayments on mortgages.

On December 1, 2003, \$12.716 million of Montana Board of Housing, Single Family II Indenture bonds were redeemed with prepayments on mortgages.

NOTE 17. SUBSEQUENT EVENTS

Bond Issues

On August 14, 2003, the Montana Board of Housing issued \$70.7 million in bonds under the Single Family II Indenture. \$20 million of the proceeds were used for a replacement refunding of a portion of the 1995 B-1 bonds on September 1, 2003. In addition, \$16.695 million of Single Family II Indenture bonds were redeemed with prepayments on mortgages on October 1, 2003.

On October 15, 2003, Montana State University issued \$18.76 million in Municipal Auction Rate Securities as Series 2003G Revenue bonds. Of this total, \$16.745 million was used for a current refunding of the Series 1993-A bonds, and \$2.015 million was used for an advance refunding of the Series 1994C bonds.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 113,363	\$ 113,363	\$ 119,964	\$ 6,601
Taxes:				
Natural resource	25,596	25,596	43,395	17,799
Individual income	592,805	592,805	531,809	(60,996)
Corporate income	81,792	81,792	41,291	(40,501)
Property	178,379	178,379	172,431	(5,948)
Fuel	-	-	-	-
Other	193,163	193,163	164,345	(28,818)
Charges for services/fines/forfeits/settlements	43,184	43,184	48,101	4,917
Investment earnings	17,026	17,026	7,067	(9,959)
Sale of documents/merchandise/property	299	299	387	88
Rentals/leases/royalties	95	95	73	(22)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	2,378	2,378	2,734	356
Federal	20,724	20,724	25,989	5,265
Federal indirect cost recoveries	153	153	116	(37)
Other revenues	490	490	336	(154)
Total revenues	1,269,447	1,269,447	1,158,038	(111,409)
EXPENDITURES				
Current:				
General government	175,518	173,986	168,303	5,683
Public safety/corrections	130,285	118,312	116,120	2,192
Transportation	180	162	140	22
Health/social services	279,657	261,717	255,894	5,823
Education/cultural	587,890	543,604	542,520	1,084
Resource/recreation/environment	23,536	22,251	21,350	901
Economic development/assistance	21,087	19,451	18,730	721
Debt service:				
Principal retirement	287	407	506	(99)
Interest/fiscal charges	1,880	1,880	1,880	-
Capital outlay	1,457	1,066	971	95
Total expenditures	1,221,777	1,142,836	1,126,414	16,422
Excess of revenue over (under) expenditures	47,670	126,611	31,624	(94,987)
OTHER FINANCING SOURCES (USES)				
Loans issued	38	38	-	(38)
Bonds issued	303	303	-	(303)
Refunding bonds issued	-	-	-	-
Discount on bonds issued	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
General capital asset sale proceeds	43	43	-	(43)
Transfers in	83,930	83,930	80,116	(3,814)
Transfers out	(156,789)	(141,403)	(141,297)	106
Total other financing sources (uses)	(72,475)	(57,089)	(61,181)	(4,092)
Excess of revenues/other sources over (under) expenditures/other uses (Budgetary basis)	(24,805)	69,522	(29,557)	(99,079)
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Adjust expenditures for encumbrances	-	-	(726)	(726)
2. Adjustments for nonbudgeted activity	-	-	(9,338)	(9,338)
3. Securities lending income	-	-	312	312
4. Securities lending costs	-	-	(264)	(264)
Excess of revenues/other sources over (under) expenditures/other uses (GAAP basis)	(24,805)	69,522	(39,573)	(109,095)
Unreserved fund balances - July 1	81,316	81,316	81,316	-
Prior period adjustments	-	-	1,338	1,338
Decrease (increase):				
Encumbrances reserve	-	-	756	756
Advances to other funds reserve	-	-	60	60
Long-term loans reserve	-	-	18	18
Escheated property/special revenue reserve	-	-	(850)	(850)
Unreserved fund balances - June 30	\$ 56,511	\$ 150,838	\$ 43,065	(107,773)

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 89,060	\$ 89,060	\$ 90,926	\$ 1,866	\$ 17	\$ 17	\$ -	\$ (17)
46,701	46,701	49,877	3,176	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,415	9,415	7	(9,408)	-	-	-	-
191,093	191,093	191,595	502	-	-	-	-
41,383	41,383	36,412	(4,971)	4	4	(10)	(14)
63,233	63,233	55,590	(7,643)	42,171	42,171	35,477	(6,694)
13,120	13,120	18,508	5,388	2,998	2,998	314	(2,684)
5,633	5,633	5,202	(431)	38	38	7	(31)
1,667	1,667	466	(1,201)	-	-	-	-
6,250	6,250	7,191	941	-	-	-	-
19,385	19,385	17,637	(1,748)	1,911	1,911	217	(1,694)
5,523	5,523	1,432	(4,091)	1,557,398	1,557,398	1,346,529	(210,869)
12	12	31,445	31,433	1,539	1,539	2,281	742
7,798	7,798	1,428	(6,370)	1,124	1,124	(492)	(1,616)
500,273	500,273	507,716	7,443	1,607,200	1,607,200	1,384,323	(222,877)
85,540	86,520	63,536	22,984	6,805	14,678	4,923	9,755
35,247	44,468	36,832	7,636	57,112	77,590	32,930	44,660
223,587	218,421	192,123	26,298	371,924	377,424	314,177	63,247
34,706	39,135	29,408	9,727	770,893	796,520	721,425	75,095
112,188	63,048	57,403	5,645	174,567	189,646	158,141	31,505
172,507	175,909	113,774	62,135	66,554	90,349	50,578	39,771
68,901	68,406	58,170	10,236	124,045	140,162	99,481	40,681
73,380	73,588	1,009	72,579	137	137	137	-
533	533	533	-	20	20	20	-
5,515	4,451	19,863	(15,412)	883	2,127	20,986	(18,859)
812,104	774,479	572,651	201,828	1,572,940	1,688,653	1,402,798	285,855
(311,831)	(274,206)	(64,935)	209,271	34,260	(81,453)	(18,475)	62,978
556	556	1,243	687	-	-	-	-
17,942	17,942	15,754	(2,188)	-	-	-	-
1,970	1,970	1,970	-	-	-	-	-
-	-	(65)	(65)	-	-	-	-
-	-	(915)	(915)	-	-	-	-
253	253	312	59	1	1	(2)	(3)
98,416	98,416	93,971	(4,445)	41,661	41,661	8,573	(33,088)
(28,450)	(29,288)	(18,538)	10,750	(45,448)	(46,510)	(9,912)	36,598
90,687	89,849	93,732	3,883	(3,786)	(4,848)	(1,341)	3,507
(221,144)	(184,357)	28,797	213,154	30,474	(86,301)	(19,816)	66,485
-	-	7,631	7,631	-	-	2,901	2,901
-	-	33,954	33,954	-	-	44,083	44,083
-	-	444	444	-	-	-	-
-	-	(391)	(391)	-	-	-	-
(221,144)	(184,357)	70,435	254,792	30,474	(86,301)	27,168	113,469
439,472	439,472	439,472	-	(2,284)	(2,284)	(2,284)	-
-	-	3,838	3,838	-	-	1,186	1,186
-	-	(3,476)	(3,476)	-	-	438	438
-	-	(266)	(266)	-	-	-	-
-	-	(33,760)	(33,760)	-	-	111	111
-	-	(14)	(14)	-	-	(1,169)	(1,169)
\$ 218,328	\$ 255,115	\$ 476,229	\$ 221,114	\$ 28,190	\$ (88,585)	\$ 25,450	\$ 114,035

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and the proposed budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the

Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There have been budget amendments authorized for fiscal year 2003 that were material to specific budgets; however, they did not materially affect the State's budget as a whole. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2003, reverted appropriations were as follows: General Fund - \$9.8 million, State Special Revenue Fund - \$40 million, and Federal Special Revenue Fund - \$107.1 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana for the fiscal year ended June 30, 2003, and have issued our report thereon dated November 28, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

November 28, 2003

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

PEACE CORPS

08.999	Miscellaneous Non-Major Grants	11,753
	TOTAL	\$11,753

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	593,229
10.072	Wetlands Reserve Program	4,882
10.156	Federal-State Marketing Improvement Program	31,350
10.162	Inspection Grading and Standardization	73,723
10.163	Market Protection and Promotion	3,370
10.200	Grants for Agricultural Research, Special Research Grants	22,415
10.206	Grants for Agricultural Research-Competitive Research Grants	58,252
10.207	Animal Health and Disease Research	39,505
10.210	Food and Agriculture Sciences National Needs	74,654
10.302	Initiative for Future Agriculture and Food Systems: From University of Wyoming	126,867
10.303	Integrated Programs	35,445
10.304	Homeland Security - Agricultural	194,478
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	496,651
10.500	Cooperative Extension Service	3,804,691
10.500	Cooperative Extension Service: From Utah State Univ.	16,869
10.500	Cooperative Extension Service: From Washington State Univers.	34,536
10.550	Food Distribution	2,611,364
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	12,383,607
10.558	Child and Adult Care Food Program	9,146,155
10.560	State Administrative Expenses for Child Nutrition	650,618
10.565	Commodity Supplemental Food Program	1,526,936
10.567	Food Distribution Program on Indian Reservations	3,676,181
10.570	Nutrition Program for the Elderly (Commodities)	1,024,304
10.572	WIC Farmers' Market Nutrition Program (FMNP)	88,475
10.574	Team Nutrition Grants	169,782
10.601	Market Access Program	37,592
10.652	Forestry Research	1
10.664	Cooperative Forestry Assistance	10,645,161
10.664	Cooperative Forestry Assistance: From Nat. Fish and Wildlife	5,960

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

	AMOUNT
10.672 Rural Development, Forestry, and Communities	813,647
10.769 Rural Development Grants	15,755
10.771 Rural Cooperative Development Grants	325,384
10.773 Rural Business Opportunity Grants	59,782
10.855 Distance Learning and Telemedicine Loans and Grants	209,358
10.901 Resource Conservation and Development	61,264
10.961 International Agricultural Research Program	2,550
10.999 Miscellaneous Non-Major Grants	703,119
TOTAL	\$49,767,912
CHILD NUTRITION CLUSTER	
10.553 School Breakfast Program	3,486,132
10.555 National School Lunch Program	15,263,872
10.556 Special Milk Program for Children	43,898
10.559 Summer Food Service Program for Children	542,754
TOTAL	\$19,336,656
EMERGENCY FOOD ASSIST. CLUSTER	
10.568 Emergency Food Assistance Program (Administrative Costs)	182,855
10.569 Emergency Food Assistance Program (Food Commodities)	938,923
TOTAL	\$1,121,778
FOOD STAMP CLUSTER	
10.551 Food Stamps	64,402,059
10.561 State Administrative Matching Grants for Food Stamp Program	7,677,767
TOTAL	\$72,079,826
SCHOOLS AND ROADS CLUSTER	
10.665 Schools and Roads: Grants to States	12,478,757
TOTAL	\$12,478,757
DEPARTMENT OF COMMERCE	
11.550 Public Telecommunication Facilities-Planning and Construction	349,890
11.552 Telecommunications and Information Infrastructure Assistance Program	103,804
TOTAL	\$453,694

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

PUBLIC WORKS AND E.D. CLUSTER

11.307	Special Economic Development and Adjustment Assistance Program	2,900
TOTAL		\$2,900

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms: From Big Sky ED Authority	40,000
12.110	Planning Assistance to States	676,742
12.112	Payments to States in Lieu of Real Estate Taxes	15,892
12.114	Collaborative Research and Development	3,641
12.400	Military Construction National Guard	3,919,526
12.401	National Guard Military Operations and Maintenance Projects	14,511,700
12.404	National Guard Civilian Youth Opportunities	1,666,713
12.900	Language Grant Program	111,422
12.999	West Point Academy	114,110
TOTAL		\$21,059,746

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	239,355
14.228	Community Development Block Grant/States Program	7,921,130
14.231	Emergency Shelter Grants Program	351,181
14.239	Home Investment Partnerships Program	4,027,373
14.241	Housing Opportunities for Persons with AIDS	432,327
14.246	Community Development Block Grants/Economic Development Initiative	370,065
14.871	Section 8 Housing Choice Vouchers	16,120,346
TOTAL		\$29,461,777

SECTION 8 PROJECT-BASED CLUSTER

14.195	Section 8 Housing Assistance Payments Program Special Allocations	14,523,973
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	2,174,975
TOTAL		\$16,698,948

DEPARTMENT OF THE INTERIOR

10.670	National Forest Dependent Rural Communities	11,040
15.034	Agriculture on Indian Lands	134,630
15.043	Indian Child and Family Education	72

State of Montana
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		AMOUNT
15.114	Indian Education: Higher Education Grant Program	48,730
15.130	Indian Education: Assistance to Schools	23,567
15.224	Cultural Resource Management	21,258
15.225	Recreation Resource Management	20,792
15.228	Wildland Urban Interface Community and Rural Fire Assistance	245,845
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	977,292
15.252	Abandoned Mine Land Reclamation (AMLR) Program	3,783,584
15.254	Summer Watershed Intern	7,476
15.299	Miscellaneous Non-Major Grants	230,475
15.504	Reclamation and Water Reuse Program	178,261
15.608	Fish and Wildlife Management Assistance	45,473
15.615	Cooperative Endangered Species Conservation Fund	4,935,776
15.617	Wildlife Conservation and Appreciation	4,764
15.622	Sportfishing and Boating Safety Act	200,499
15.634	State Wildlife Grants	565,457
15.805	Assistance to State Water Resources Research Institutes	15,418
15.806	Water Education Program	46,053
15.808	U.S. Geological Survey-Research and Data Acquisition	5,577
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	643,403
15.904	Historic Preservation Fund Grants-in-Aid	846,071
15.912	National Historic Landmark	70,693
15.915	Technical Preservation Services	19,141
15.916	Outdoor Recreation: Acquisition, Development and Planning	421,226
15.921	Rivers, Trails and Conservation Assistance	88
15.923	National Center for Preservation Technology and Training	33,402
15.999	Miscellaneous Non-Major Grants	1,909,320
15.999	Miscellaneous Non-Major Grants: From Wild and Nat. Fisher.	(49)
15.999	Miscellaneous Non-Major Grants: From Nat. Fish and Wildlife	5,960
15.999	Miscellaneous Non-Major Grants: From Historyworks Inc.	1,440
TOTAL		\$15,452,734
 FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	5,209,610
15.611	Wildlife Restoration	5,473,210
TOTAL		\$10,682,820

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AMOUNT

DEPARTMENT OF JUSTICE

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	48,326
16.007	State Domestic Preparedness Equipment Support Program	1,398,763
16.202	Offender Reentry Program	61,373
16.523	Juvenile Accountability Incentive Block Grants	1,231,847
16.525	Grants to Reduce Violent Crimes Against Women on Campus	138,785
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	928,291
16.543	Missing Children Assistance	23,928
16.547	Victims of Child Abuse	37,556
16.548	Title V Delinquency Prevention	100,001
16.549	Part E State Challenge Activities	77,438
16.550	State Justice Statistics Program For Statistical Analysis Centers	24,323
16.554	National Criminal History Improvement Program (NCHIP)	241,854
16.575	Crime Victim Assistance	1,632,763
16.576	Crime Victim Compensation	173,000
16.579	Byrne Formula Grant Program	2,670,891
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	1,384,036
16.588	Violence Against Women Formula Grants	927,624
16.590	Grants to Encourage Arrest Policies	76,577
16.592	Local Law Enforcement Block Grants Program	191,446
16.593	Residential Substance Abuse Treatment for State Prisoners	342,743
16.609	Planning, Implementing, and Enhancing Strategies in Community Prosecution	3,578
16.710	Public Safety Partnership and Community Policing Grants	1,478,373
16.727	Combating Underage Drinking	349,387
16.999	Miscellaneous Non-Major Grants	357,179
	TOTAL	\$13,900,082

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	848,014
17.005	Compensation and Working Conditions Data	63,167
17.203	Labor Certification for Alien Workers	51,391
17.225	Unemployment Insurance	99,237,174
17.245	Trade Adjustment Assistance-Workers	1,609,875
17.248	Employment and Training Research and Development Projects	46,043

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		AMOUNT
17.249	Employment Services and Job Training: Pilot and Demonstration Programs	92,555
17.253	Welfare-to-Work Grants to States and Localities	1,944
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	221,925
17.504	Consultation Agreements	401,730
17.600	Mine Health and Safety Grants	138,246
17.805	Homeless Veterans Reintegration Project	12,008
17.999	National Occupational Information Coordinating Committee	2,195
TOTAL		\$102,726,267
EMPLOYMENT SERVICES CLUSTER		
17.207	Employment Service	6,247,046
17.207	Employment Service: From State of Nevada	1,809
17.207	Employment Service: From North Carolina Emp. Com.	6,031
17.207	Employment Service: From South Carolina Emp. Sec.	11,095
17.207	Employment Service: From MT Job Training Partner.	195,930
17.801	Disabled Veterans Outreach Program (DVOP)	267,636
17.804	Local Veterans' Employment Representative Program	631,246
TOTAL		\$7,360,793
NATIVE AMERICAN EMPLOYMENT AND TRAINING		
17.251	Native American Employment and Training Programs	(66)
TOTAL		(66)
WORKFORCE INVESTMENT ACT CLUSTER		
17.258	WIA Adult Program	4,139,376
17.259	WIA Youth Activities	4,330,348
17.260	WIA Dislocated Workers	7,789,677
TOTAL		\$16,259,401
DEPARTMENT OF STATE		
19.405	College and University Partnerships Program	176,886
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels	169,336
19.999	Miscellaneous Grants	150,731
TOTAL		\$496,953

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AMOUNT

DEPARTMENT OF TRANSPORTATION

20.005	Boating Safety Financial Assistance	388,030
20.106	Airport Improvement Program	131,185
20.218	Motor Carrier Safety Assistance Program	1,033,347
20.219	National Recreational Trails Funding Program	406,371
20.505	Federal Transit Technical Studies Grant	253,810
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	425,085
20.700	Pipeline Safety	14,011
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	119,774
	TOTAL	\$2,771,613

FEDERAL TRANSIT CLUSTER

20.500	Federal Transit Capital Improvement Grants	99,827
20.507	Federal Transit Capital and Operating Assistance Formula Grants	1,469,263
	TOTAL	\$1,569,090

HIGHWAY PLAN. & CONST. CLUSTER

20.205	Highway Planning and Construction	306,400,395
	TOTAL	\$306,400,395

HIGHWAY SAFETY CLUSTER

20.600	State and Community Highway Safety	6,189,665
	TOTAL	\$6,189,665

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	104,060
	TOTAL	\$104,060

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices	57,914
	TOTAL	\$57,914

GENERAL SERVICES ADMINISTRATION

39.003	Donation of Federal Surplus Personal Property	251,668
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State of Montana
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		AMOUNT
39.011	Election Reform Payments	17,199
TOTAL		\$268,867
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program	16,171
43.001	Aerospace Education Services Program: From Texas A&M Univ.	53,910
43.001	Aerospace Education Services Program: From Jason Fnd for Education	43,331
43.002	Technology Transfer: From LBJ Space Center	413,630
43.999	Miscellaneous Non-Major Grants	134,744
TOTAL		\$661,786
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.024	Promotion of the Arts-Grants to Organizations and Individuals	18,169
45.025	Promotion of the Arts-Partnership Agreements	608,435
45.026	Promotion of the Arts-Leadership Initiatives	805
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Community of the Hum.	29,108
45.149	Promotion of the Humanities Division of Preservation and Access	16,087
45.162	Promotion of the Humanities-Education Development and Demonstration	13,251
45.163	Promotion of the Humanities-Seminars and Institutes	499
45.166	Promotion of the Humanities Extending the Reach Grants to Underserved Areas	(1,008)
45.301	Institute of Museum and Library Services - General Operating Support	761,439
45.312	Institute of Museum and Library Services - National Leadership Grants	75,512
TOTAL		\$1,522,297
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	152,448
47.050	Geosciences	172,650
47.070	Computer and Information Science and Engineering	140,422
47.074	Biological Sciences	111,561
47.076	Education and Human Resources	2,346,551
47.076	Education and Human Resources: From City Univ. of New York	22,495
47.076	Education and Human Resources: From Amer. Assoc. of Colleges	1,951
47.999	Miscellaneous Non-Major Grants: From Amer. Ass. of State Geo.	6,187

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AMOUNT

TOTAL \$2,954,265

SMALL BUSINESS ADMINISTRATION

59.000	Small Business Administration-Technical Assistance Grant	103,308
59.037	Small Business Development Center	658,743
59.046	Microloan Demonstration Program	114,399
TOTAL		<u>\$876,450</u>

DEPARTMENT OF VETERANS AFFAIRS

64.011	Veterans Dental Care	21,326
64.014	Veterans State Domiciliary Care	107,654
64.015	Veterans State Nursing Home Care	2,896,198
64.120	Post-Vietnam Era Veterans' Educational Assistance	2,092
64.124	All-Volunteer Force Educational Assistance	78,975
64.203	State Cemetery Grants	128,035
TOTAL		<u>\$3,234,280</u>

ENVIRONMENTAL PROTECTION AGENCY

66.418	Construction Assistance for Wastewater Treatment	67,355
66.420	State and Local Manpower Development Program	39,545
66.433	State Underground Water Source Protection	107,120
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	9,991
66.458	Capitalization Grants For State Revolving Funds	17,009,396
66.460	Nonpoint Source Implementation Grants	747,330
66.461	Wetlands Protection - State Development Grants: From Fort Belknap College	418,722
66.463	National Pollutant Discharge Elimination System Related State Program Grants	11,073
66.468	Capitalization Grants for Drinking Water State Revolving Fund	7,792,770
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	98,371
66.474	Water Protection Grants to the States	25,000
66.500	Environmental Protection: Consolidated Research	16,292
66.600	Environmental Protection Consolidated Grants Program	74,505
66.605	Performance Partnership Grants	4,642,443
66.606	Surveys, Studies, Investigations and Special Purpose Grants	25,663

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	AMOUNT
66.607 Training and Fellowships for the Environmental Protection Agency	6,572
66.708 Pollution Prevention Grants Program	147,779
66.802 Superfund State Site - Specific Cooperative Agreements	1,104,052
66.805 Leaking Underground Storage Tank Trust Fund Program	784,952
66.808 Solid Waste Management Assistance	18,872
66.809 Superfund State Core Program Cooperative Agreements	1,257,949
66.811 Brownfield Pilots Cooperative Agreements	64,626
66.950 Environmental Education and Training Program: From Univ. of Wisconsin	18,431
66.951 Environmental Education Grants	59,798
TOTAL	\$34,548,607

DEPARTMENT OF ENERGY

81.041 State Energy Program	218,586
81.042 Weatherization Assistance for Low-Income Persons	2,862,744
81.049 Office of Energy Research Financial Assistance Program: From Inland NW Res. All.	377,137
81.086 Conservation Research and Development	2,166,918
81.104 Technology Development for Environmental Management: From Mountain State Energy	301,090
81.116 Science and Engineering Training to Support Diversity-Related Programs: From Inland NW Res. All.	120,442
81.119 State Energy Program Special Projects	126,960
81.999 Miscellaneous Non-Major Grants: From Idaho Nat. Eng. & Env. Lab	820
TOTAL	\$6,174,697

FEDERAL EMERGENCY MANAGEMENT AGENCY

83.007 Reimbursement for Firefighting on Federal Property	422,295
83.012 Hazardous Materials Assistance Program	6,793
83.527 Emergency Management Institute - Training Assistance	24,189
83.536 Flood Mitigation Assistance	32,725
83.542 Fire Suppression Assistance	517,656
83.544 Public Assistance Grant	1,439,773
83.547 First Responder Anti-Terrorism Training Assistance	59,777
83.548 Hazard Mitigation Grant	309,446
83.552 Emergency Management Performance Grants	1,225,973

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	AMOUNT
83.557 Pre-Disaster Mitigation	67,732
83.562 State and Local All Hazards Emergency Operations Planning	52,087
83.563 Emergency Operations Centers	30,451
83.564 Citizen Corps	10,199
83.999 Miscellaneous Non-Major Grants	70,040

TOTAL \$4,269,136

DEPARTMENT OF EDUCATION

84.002 Adult Education - State Grant Program	1,470,936
84.010 Title I Grants To Local Education Agencies	33,677,970
84.011 Migrant Education - Basic State Grant Program	1,018,759
84.013 Title I Program for Neglected and Delinquent Children	96,806
84.015 National Resource Centers and Fellowships Program for Language and Area or Language: From Univ. Coop. in Dev.	54,719
84.015 National Resource Centers and Fellowships Program for Language and Area or Language: From Agency for Inter. Dev.	26,641
84.016 Undergraduate International Studies and Foreign Language	81,424
84.021 International: Overseas-Group Projects Abroad	32,233
84.024 Early Education for Children with Disabilities	28,625
84.029 Special Education - Personnel Development and Parent Training	2,000
84.048 Vocational Education - Basic Grants to States	5,341,894
84.069 State Student Incentives Grants	266,978
84.083 Women's Educational Equity Act Program	110,965
84.116 Fund for the Improvement of Postsecondary Education	563,553
84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	9,698,413
84.128 Rehabilitation Services-Service Projects	63,528
84.129 Rehabilitation Long-Term Training	114,174
84.133 National Institute on Disability and Rehabilitation Research	129,823
84.133 National Institute on Disability and Rehabilitation Research: From Brain Injury Assoc.	44,876
84.144 Migrant Education - Coordination Program(B): From Illinois Migrant Council	1,319
84.153 Business and International Education	35,548
84.158 Secondary Education and Transitional Services for Youth With Disabilities	(155)
84.162 Immigrant Education	517
84.169 Independent Living-State Grants	315,082

State of Montana
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	AMOUNT
84.170 Javits Fellowships	2,266
84.177 Rehabilitation Services-Independent Living Services for Older Individuals/Blind	314,451
84.181 Special Education-Grants for Infants and Families with Disabilities	2,043,318
84.184 Safe and Drug-Free Schools and Communities - National Programs	150,535
84.185 Byrd Honors Scholarships	135,750
84.186 Safe and Drug-Free Schools and Communities - State Grants	2,322,877
84.187 Supported Employment Services for Individuals with Severe Disabilities	308,750
84.194 Bilingual Education Support Services	34,058
84.195 Bilingual Education - Professional Development	767,860
84.196 Education for Homeless Children and Youth	171,219
84.203 Star Schools: From Educational Serv. Dist.	23,167
84.213 Even Start - State Educational Agencies	1,134,011
84.215 Fund for Improvement of Education	627,086
84.215 Fund for Improvement of Education: From Golden Triangle	10,635
84.224 State Grants for Assistive Technology	390,340
84.234 Projects with Industry	110,126
84.235 Special Projects and Demonstrations for Providing Vocational Rehabilitation	473,848
84.243 Tech-Prep Education	439,556
84.256 Freely Associated States - Education Grant Program: From Univ. of California	28,713
84.257 National Institute for Literacy: From Wash. Bd Comm. & Tech. S	2,493
84.264 Rehabilitation Training-Continuing Education	100,868
84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	32,211
84.278 Even Start Indian Tribes and Tribal Organizations: From Oak Ridge Inst for Sci.	6,711
84.281 Eisenhower Professional Development State Grants	392,660
84.287 Twenty-First Century Community Learning Centers	1,283,577
84.295 Ready-To-Learn Television: From PBS	83,136
84.298 Innovative Education Program Strategies	1,760,132
84.299 Indian Education - Special Programs	291,623
84.303 Technology Innovation Challenge Grants	680,733
84.314 Even Start - Statewide Family Literacy Program	84,160
84.318 Technology Literacy Challenge Fund Grants	1,463,642
84.323 Special Education - State Program Improvement Grants for Children with Disabilities	645,612
84.324 Special Education-Research and Innovation to Improve Services and Results for Children	643,724

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AMOUNT

84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	325,059
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	166,394
84.330	Advanced Placement Incentive Program	258,176
84.332	Comprehensive School Reform Demonstration	300,842
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,237,605
84.335	Child Care Access Means Parents in School	52,092
84.338	Reading Excellence	5,032,119
84.339	Learning Anytime Anywhere Partnerships	286,038
84.340	Class Size Reduction	163,257
84.341	Community Technology Centers	75,432
84.342	Preparing Tomorrow's Teachers to Use Technology	616,600
84.346	Occupational and Employment Information State Grants	113,993
84.348	Title I Accountability Grants	319,298
84.352	School Renovation Grants	3,181,786
84.358	Rural Education Achievement Program	413,725
84.360	Dropout Prevention Programs	167,683
84.365	English Language Acquisition Grants	114,972
84.367	Improving Teacher Quality State Grants	12,196,506
84.369	Grants for State Assessments and Related Activities	2,531,886
84.998	American Printing House for the Blind	5,703
84.999	Miscellaneous Non-Major Grants	35,042

TOTAL **\$98,730,684**

SPECIAL EDUCATION CLUSTER

84.027	Special Education - Grants to States	23,519,603
84.173	Special Education - Preschool Grants	1,263,467

TOTAL **\$24,783,070**

STUDENT FINANCIAL ASSISTANCE CLUSTER

84.007	Federal Supplemental Educational Opportunity Grants	1,707,114
84.032	Federal Family Education Loans	1,447,618
84.033	Federal Work - Study Program	2,091,050
84.038	Federal Capital Contributions	770,454
84.063	Federal Pell Grant Program	32,870,377

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		AMOUNT
84.268	Federal Direct Student Loans	32,731,982
93.364	Nursing Student Loan Program	26,653
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	309,488
TOTAL		\$71,954,736
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,098,207
84.044	TRIO-Talent Search	636,891
84.047	TRIO-Upward Bound	1,729,206
84.066	TRIO-Educational Opportunity Centers	615,247
84.217	McNair Post - Baccalaureate Achievement	223,898
TOTAL		\$4,303,449
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	16,204
TOTAL		\$16,204
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.003	Public Health and Social Services Emergency Fund	26,084
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	21,016
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	65,087
93.043	Special Programs for the Aging-Title III, Part F-DiseasePrevention/Health Promotion Serv	107,830
93.052	Nation Family Caregiver Support Program	764,906
93.103	Food and Drug Administration Research	1,207
93.110	Maternal and Child Health Federal Consolidated Programs	170,425
93.116	Project Grant and Cooperative for Tuberculosis Control Program	265,104
93.127	Emergency Medical Services for Children	134,193
93.130	Primary Care Services-Resource Coordination and Development Primary Care Offices	251,389
93.150	Projects for Assistance in Transition from Homelessness (PATH)	279,865
93.157	Centers of Excellence: From Univ. of Washington	192,138
93.161	Health Program for Toxic Substances and Disease Registry	85,081
93.178	Nursing Workforce Diversity	25,966
93.184	Disabilities Prevention	266,714
93.197	Childhood Lead Poisoning Prevention Projects-State and Community	11,387

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	AMOUNT
93.217 Family Planning Services	1,975,492
93.230 Consolidated Knowledge Development and Application Program	2,553,046
93.234 Traumatic Brain Injury-State Demonstration	8,218
93.235 Abstinence Education	193,322
93.238 Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	106,511
93.241 State Rural Hospital Flexibility Program	728,386
93.243 Substance Abuse and Mental Health Services-Projects of Regional and National Significance	79,834
93.251 Universal Newborn Hearing Screening	163,099
93.256 State Planning Grant_Health Care Access for the Uninsured	397,991
93.259 Rural Access to Emergency Devices Grant	23,535
93.263 Occupational Safety and Health Training Grant	61,597
93.268 Childhood Immunization Grant	3,740,195
93.282 Mental Health National Research Service Awards for Research Training	373
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	7,593,593
93.288 National Health Service Corps Scholarship Program	94
93.289 President's Council on Physical Fitness and Sports: From Nat. Youth Sports Prg	44,697
93.359 Basic Nurse Education and Practice Grants	126,101
93.375 Minority Biomedical Research Support	1,113,638
93.389 Research Infrastructure: From Univ. of Wyoming	34,167
93.556 Family Preservation and Support Services	950,213
93.558 Temporary Assistance for Needy Families (TANF)	42,240,387
93.563 Child Support Enforcement	8,031,712
93.566 Refugee and Entrant Assistance-State Administered Programs	116,384
93.568 Low Income Home Energy Assistance	12,140,374
93.569 Community Services Block Grant	3,206,798
93.570 Community Services Block Grant - Discretionary Awards: From Nat. Youth Sports Prg	12,586
93.576 Refugee and Entrant Assistance-Discretionary Grants	60,914
93.586 State Court Improvement Program	98,760
93.590 Community-Based Family Resource and Support Grants	117,741
93.597 Grants to States for Access and Visitation Programs	104,937
93.600 Head Start	128,629
93.601 Child Support Enforcement Demonstrations and Special Projects	19,126

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	AMOUNT
93.603 Adoption Incentive Payments	489,606
93.612 Native American Programs	22,890
93.630 Developmental Disabilities Basic Support and Advocacy Grants	413,910
93.631 University Centers for Excellence in Developmental Disabilities Education, Research	6,814
93.632 Developmental Disabilities University Affiliated Programs	360,694
93.643 Children's Justice Grants to States	83,650
93.645 Child Welfare Service-State Grant	882,610
93.658 Foster Care Title IV-E	10,990,642
93.659 Adoption Assistance	4,801,898
93.667 Social Services Block Grant	9,966,274
93.669 Child Abuse and Neglect State Grants	106,997
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	794,157
93.674 Independent Living	351,856
93.767 State Children's Insurance Program	11,581,786
93.822 Health Careers Opportunities Program: From Univ. of Washington	1,037,946
93.824 Area Health Education Centers: From Univ. of Washington	116,389
93.847 Diabetes, Endocrinology and Metabolism Research	2,051
93.913 Grants to States for Operation of Offices of Rural Health	147,046
93.917 HIV Care Formula Grants	776,260
93.919 Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	498,307
93.926 Healthy Start Initiative	(21,999)
93.938 Cooperative Agreements to Support School Health Programs	467,721
93.940 HIV Prevention Activities-Health Department Based	1,328,795
93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	61,850
93.945 Assistance Program for Chronic Disease Prevention	473,535
93.958 Block Grants for Community Mental Health Services	950,946
93.959 Block Grants for Prevention and Treatment of Substance Abuse	7,725,566
93.969 Geriatric Education Centers	249,164
93.970 Health Professions Recruitment Program for Indians	259,202
93.977 Preventive Health Services-Sexually Transmitted Diseases Control Grants	320,905
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	653,617
93.991 Preventive Health and Health Services Block Grant	876,772
93.994 Maternal and Child Health Services Block Grant to the States	2,661,705

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AMOUNT

93.999	Miscellaneous Non-Major Grants	334,191
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	81,538
93.999	Miscellaneous Non-Major Grants: From University of Idaho	45

TOTAL	\$148,696,178
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AGING CLUSTER

93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,780,874
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,682,202

TOTAL	\$4,463,076
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CHILD CARE CLUSTER

93.575	Child Care and Development Block Grant	15,073,032
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	6,275,199

TOTAL	\$21,348,231
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CONSOLIDATED HEALTH CENTERS CLUSTER

93.224	Community Health Centers: From Partnership Health Center	20,269
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TOTAL	\$20,269
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MEDICAID CLUSTER

93.775	State Medicaid Fraud Control Units	390,965
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,737,943
93.778	Medical Assistance Program	449,637,995

TOTAL	\$451,766,903
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CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	159,350
94.004	Learn and Serve America-School and Community Based Programs: From Corp. for National Serv.	147,141
94.005	Learn & Serve America-Higher Education	144,247
94.006	AmeriCorps	1,682,641
94.007	Planning and Program Development Grants	57,540
94.009	Training and Technical Assistance	123,215
94.013	Volunteers in Service to America: From Corp. for National Serv.	362,662

TOTAL	\$2,676,796
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

SOCIAL SECURITY ADMINISTRATION

96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	68,468
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	TOTAL	<u>\$68,468</u>
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DISABILITY INSURANCE/SSI CLUSTER

96.001	Social Security - Disability Insurance	4,788,686
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	TOTAL	<u>\$4,788,686</u>
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OTHER FEDERAL

99.999	Other Federal	101,768
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	TOTAL	<u>\$101,768</u>
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

10.001	Agricultural Research-Basic and Applied Research	419,918
10.025	Plant and Animal Disease, Pest Control, and Animal Care	197,305
10.200	Grants for Agricultural Research, Special Research Grants	3,143,494
10.200	Grants for Agricultural Research, Special Research Grants: From Salish Kootenai College	23,745
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Univ.	755
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State University	8,172
10.200	Grants for Agricultural Research, Special Research Grants: From Washington State Univ.	24,200
10.200	Grants for Agricultural Research, Special Research Grants: From Pacific NW Canola Prg	38,616
10.200	Grants for Agricultural Research, Special Research Grants: From Kansas State University	192,248
10.200	Grants for Agricultural Research, Special Research Grants: From University of Wyoming	1,324
10.200	Grants for Agricultural Research, Special Research Grants: From South Dakota State	2,876
10.200	Grants for Agricultural Research, Special Research Grants: From West. Reg. SARE Prg	15,159
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Washington	19,781
10.200	Grants for Agricultural Research, Special Research Grants: From Other Universities	24,126
10.200	Grants for Agricultural Research, Special Research Grants: From University of Idaho	96,217
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,988,101
10.206	Grants for Agricultural Research-Competitive Research Grants	1,361,733
10.212	Small Business Innovation Research: From Eniv. & Petro. Const.	3,025
10.215	Sustainable Agriculture Research and Education: From Utah State Univ.	650
10.217	Higher Education Challenge Grants	79,902
10.224	Fund for Rural America-Research, Education, and Extension Activities: From University of Missouri	166,520
10.224	Fund for Rural America-Research, Education, and Extension Activities: From University of Idaho	243
10.226	Secondary Agriculture Education Grants: From Dull Knife Mem. College	6,054
10.227	1994 Institutions Research Program: From Dull Knife Mem. College	26,866

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

		AMOUNT
10.227	1994 Institutions Research Program: From Fort Peck Comm. College	43,855
10.250	Agricultural and Rural Economic Research	17,975
10.302	Initiative for Future Agriculture and Food Systems	1,154,164
10.302	Initiative for Future Agriculture and Food Systems: From Utah State Univ.	(283,572)
10.302	Initiative for Future Agriculture and Food Systems: From University of Calif. Davis	156,103
10.302	Initiative for Future Agriculture and Food Systems: From North Dakota University	74,215
10.303	Integrated Programs: From Colorado State Univ.	33,794
10.303	Integrated Programs: From University of Calif. Davis	14,265
10.304	Homeland Security - Agricultural: From Kansas State University	16,121
10.450	Crop Insurance	20,656
10.500	Cooperative Extension Service	91,479
10.500	Cooperative Extension Service: From Utah State Univ.	8,941
10.500	Cooperative Extension Service: From MT Grain Growers Assc.	6,712
10.500	Cooperative Extension Service: From Fort Peck Comm. College	4,987
10.500	Cooperative Extension Service: From Michigan State Univ.	6,978
10.652	Forestry Research	2,365,540
10.652	Forestry Research: From Rocky Mount. Res. Station	10,933
10.652	Forestry Research: From Nat. Fish and Wildlife	26,488
10.652	Forestry Research: From Arthur Carhart	48,940
10.652	Forestry Research: From Ravalli Co. Econ. Dev.	2,118
10.652	Forestry Research: From Colorado State Univ.	3,851
10.653	Land Exchange in the National Forests	308,803
10.664	Cooperative Forestry Assistance	14,224
10.664	Cooperative Forestry Assistance: From Rocky Mount. Res. Station	20,133
10.769	Rural Development Grants: From Kansas State University	11,416
10.902	Soil and Water Conservation	23,729
10.912	Environmental Quality Incentives Program	15,752
10.961	International Agricultural Research Program	47,586
10.999	Miscellaneous Non-Major Grants	64,091
10.999	Miscellaneous Non-Major Grants: From Rocky Mount. Res. Station	27,115
10.999	Miscellaneous Non-Major Grants: From Dull Knife Mem. College	(213)
	TOTAL	\$12,198,209

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

DEPARTMENT OF COMMERCE

11.112	Export Promotion Market Development Cooperator	129,408
11.303	Economic Development-Technical Assistance	67,316
11.307	Special Economic Development and Adjustment Assistance Program	26,399
11.312	Research and Evaluation Program	10,092
11.420	Coastal Zone Management Estuarine Research Reserves: From Bermuda Bio. Stat.	(22)
11.427	Fisheries Development & Utilization Research	39,707
11.431	Climate and Atmospheric Research	67,970
11.432	Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes: From Univ. of Hawaii -Res. Cp.	26,608
11.433	Marine Fisheries Initiative	36,041
11.437	Pacific Fisheries Data Program: From SW Fisheries Sci. Center	11,168
11.438	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	8,294
11.439	Marine Mammal Data Program	7,473
11.440	Environmental Sciences, Applications, Data, and Education	67,871
11.478	Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	20,902
11.552	Telecommunications and Information Infrastructure Assistance Program	252,217
11.611	Manufacturing Extension Partnership	516,222
TOTAL		\$1,287,666

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	1,409,072
12.100	Aquatic Plant Control	70,276
12.114	Collaborative Research and Development: From Nat. Res. Council	64,113
12.300	Basic and Applied Scientific Research	1,584,795
12.420	Military Medical Research and Development	302,762
12.431	Basic Scientific Research	175,599
12.630	Basic, Applied, and Advanced Research in Science and Engineering	816,312
12.800	Air Force Defense Research Sciences Program	155,280
12.910	Research and Technology Development	630,046
12.999	West Point Academy: From Idaho Nat. Eng. & Env. Lab	6,540
TOTAL		\$5,214,795

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.246	Community Development Block Grants/Economic Development Initiative	152,358
14.901	Healthy Homes Demonstration Grants	1,401
14.999	Miscellaneous Non-Major Grants	5,594

TOTAL	\$159,353
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DEPARTMENT OF THE INTERIOR

15.041	Environmental Management Indian Programs: From The Environmental Co.	5,988
15.130	Indian Education: Assistance to Schools	18,311
15.219	Wildlife Habitat Management Technical Assistance	(2)
15.222	Cooperative Inspection Agreements with States and Tribes	23,611
15.224	Cultural Resource Management: From Ctr for Inv. Plant Man.	547,865
15.225	Recreation Resource Management	31,826
15.228	Wildland Urban Interface Community and Rural Fire Assistance	36,304
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,000
15.252	Abandoned Mine Land Reclamation (AMLR) Program	346,936
15.299	Miscellaneous Non-Major Grants	1,540,546
15.605	Sport Fish Restoration	(9,374)
15.608	Fish and Wildlife Management Assistance	225,845
15.611	Wildlife Restoration	2,000
15.614	Coastal Wetlands Planning, Protection and Restoration Act	(270)
15.615	Cooperative Endangered Species Conservation Fund	3,831
15.617	Wildlife Conservation and Appreciation	118,957
15.634	State Wildlife Grants	51,311
15.635	Neotropical Migratory Bird Conservation	24,936
15.699	USDI/Fish & Wildlife Service	143,876
15.805	Assistance to State Water Resources Research Institutes	46,034
15.808	U.S. Geological Survey-Research and Data Acquisition	1,799,049
15.810	National Cooperative Geologic Mapping Program	41,798
15.904	Historic Preservation Fund Grants-in-Aid	76
15.910	National Natural Landmarks Program	452,032
15.912	National Historic Landmark	92,679

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

	AMOUNT
15.915 Technical Preservation Services	66,460
15.916 Outdoor Recreation: Acquisition, Development and Planning	757
15.919 Urban Park and Recreation Recovery Program	12,970
15.921 Rivers, Trails and Conservation Assistance: From Univ. of Wyoming NPS Cent	129,408
15.923 National Center for Preservation Technology and Training	45,987
15.975 Research Information	(550)
15.977 State Partnerships	6,111
15.999 Miscellaneous Non-Major Grants	1,541,004
15.999 Miscellaneous Non-Major Grants: From University of Wyoming	250
TOTAL	\$7,347,562
DEPARTMENT OF JUSTICE	
16.560 Justice Research, Development, and Evaluation Project Grants	29,177
16.609 Planning, Implementing, and Enhancing Strategies in Community Prosecution	27,417
TOTAL	\$56,594
DEPARTMENT OF LABOR	
17.249 Employment Services and Job Training: Pilot and Demonstration Programs	117,035
17.251 Native American Employment and Training Programs	23,939
TOTAL	\$140,974
DEPARTMENT OF STATE	
19.401 Educational Exchange - Fulbright/Hayes: From Coun. of Intern.Exch. Sch	26,780
19.406 College & University Affiliations Program	117,871
19.420 Cooperative Grants: From Nat. Fish and Wildlife	6,977
19.999 Miscellaneous Grants	183,025
19.999 Miscellaneous Grants: From Univ. of Hawaii -Manoa	266,682
19.999 Miscellaneous Grants: From University of Calf. Davis	7,765
19.999 Miscellaneous Grants: From Virg. Polytech. Inst.	462
TOTAL	\$609,562
DEPARTMENT OF TRANSPORTATION	
20.205 Highway Planning and Construction	93,585
20.301 Railroad Safety	190,593
20.505 Federal Transit Technical Studies Grant: From Trans. Research Inst.	(685)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

		AMOUNT
20.600	State and Community Highway Safety	61,612
20.701	University Transportation Centers Program	2,296,323
20.701	University Transportation Centers Program: From University of Idaho	65,150
20.701	University Transportation Centers Program: From Univ. of North Dakota	15,490
TOTAL		\$2,722,068
FEDERAL MEDIATION AND CONCILIATION SERVICE		
34.001	Labor Mediation and Conciliation	67,193
TOTAL		\$67,193
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION		
43.001	Aerospace Education Services Program	4,044,103
43.001	Aerospace Education Services Program: From Univ. of Calif. Berkeley	248,035
43.001	Aerospace Education Services Program: From Univ. of Washington	13,640
43.001	Aerospace Education Services Program: From Lockheed Martin	548,882
43.001	Aerospace Education Services Program: From Southwest Res. Inst.	20,822
43.001	Aerospace Education Services Program: From Smithsonian Astroph. Obs.	12,257
43.001	Aerospace Education Services Program: From Jet Propulsion Lab	17,210
43.001	Aerospace Education Services Program: From Adv. Inc.	4,089
43.001	Aerospace Education Services Program: From Univ. of North Dakota	160,031
43.001	Aerospace Education Services Program: From NASA	8,065
43.001	Aerospace Education Services Program: From Scientific Materials	25,298
43.002	Technology Transfer	1,184,754
43.999	Miscellaneous Non-Major Grants	3,368,538
43.999	Miscellaneous Non-Major Grants: From Univ. of North Dakota	47,908
43.999	Miscellaneous Non-Major Grants: From Calif. State Univ.	3,092
43.999	Miscellaneous Non-Major Grants: From Calif. Inst. of Tech.	66,866
43.999	Miscellaneous Non-Major Grants: From University of Idaho	265,762
43.999	Miscellaneous Non-Major Grants: From Umatilla Tribe	31,412
TOTAL		\$10,070,764
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.149	Promotion of the Humanities Division of Preservation and Access	76,923
TOTAL		\$76,923

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	1,087,716
47.049	Mathematical and Physical Sciences	1,970,457
47.049	Mathematical and Physical Sciences: From CENADA	53,973
47.049	Mathematical and Physical Sciences: From University of Missouri	148,267
47.049	Mathematical and Physical Sciences: From University of Mass.	54,733
47.050	Geosciences	945,682
47.050	Geosciences: From MIT	7,804
47.050	Geosciences: From Ohio University	101,300
47.050	Geosciences: From Inc. Res. Inst for Seism.	10,627
47.070	Computer and Information Science and Engineering	536,610
47.074	Biological Sciences	3,053,927
47.074	Biological Sciences: From Idaho State Univ.	8,188
47.074	Biological Sciences: From Univ. of Calif.- S.D.	80,192
47.074	Biological Sciences: From Colorado State Univ.	12,456
47.075	Social, Behavioral, and Economic Sciences	264,077
47.076	Education and Human Resources	6,532,846
47.076	Education and Human Resources: From Univ. Coop. Atmosp. Res.	33,677
47.076	Education and Human Resources: From Ithaca College	48,018
47.076	Education and Human Resources: From Nat. Science Teach. Ass.	87,698
47.076	Education and Human Resources: From College of Will. & Mary	11,666
47.076	Education and Human Resources: From University of Kentucky	(60)
47.076	Education and Human Resources: From City Univ. of New York	12,157
47.077	Academic Research Infrastructure	12,780
47.078	Polar Programs	606,647
	TOTAL	\$15,681,438

ENVIRONMENTAL PROTECTION AGENCY

66.009	Air Information Center: From University of Texas	75,567
66.454	Water Quality Management Planning	5,166
66.456	National Estuary Program	0
66.460	Nonpoint Source Implementation Grants	2,881,730

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

	AMOUNT
66.500 Environmental Protection: Consolidated Research	1,872,137
66.502 Pesticides Control Research	162,658
66.606 Surveys, Studies, Investigations and Special Purpose Grants	1,374,179
66.606 Surveys, Studies, Investigations and Special Purpose Grants: From University of Illinois	17,561
66.606 Surveys, Studies, Investigations and Special Purpose Grants: From CH2M Hill	21,098
66.606 Surveys, Studies, Investigations and Special Purpose Grants: From Midwest Tech. Center	2,784
66.606 Surveys, Studies, Investigations and Special Purpose Grants: From Powder River	5,436
66.606 Surveys, Studies, Investigations and Special Purpose Grants: From Rosebud Cons	36,450
66.607 Training and Fellowships for the Environmental Protection Agency	16,422
66.651 Sustainable Development Challenge Grants	2,441
66.708 Pollution Prevention Grants Program	76,771
66.711 Environmental Justice through Pollution Prevention Grants	24,630
66.802 Superfund State Site - Specific Cooperative Agreements: From CDM Fed Prg Corp.	305,567
66.802 Superfund State Site - Specific Cooperative Agreements: From CH2M Hill	39,531
66.806 Superfund Technical Assistance Grants for Citizen Groups at Priority Sites	5,283
66.808 Solid Waste Management Assistance	4,768
66.999 Miscellaneous Non-Major Grants	89,850
TOTAL	\$7,020,029

DEPARTMENT OF ENERGY

81.004 University Laboratory Cooperative Program	5,310
81.022 Used Energy-Related Laboratory Equipment Grants: From Mountain State Energy	36,576
81.041 State Energy Program	14,895
81.049 Office of Energy Research Financial Assistance Program	685,242
81.049 Office of Energy Research Financial Assistance Program: From Washington State Univ.	159,946
81.049 Office of Energy Research Financial Assistance Program: From Inland NW Res. All.	194,567
81.049 Office of Energy Research Financial Assistance Program: From Bechtel BWXT Idaho, LLC	6,594
81.049 Office of Energy Research Financial Assistance Program: From Bonneville Power	1,632
81.049 Office of Energy Research Financial Assistance Program: From Princeton Univ.	28,652
81.049 Office of Energy Research Financial Assistance Program: From Battelle Battelle	36,029

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

81.049	Office of Energy Research Financial Assistance Program: From Sandia Corp.	57,521
81.064	Office of Scientific and Technical Information	260
81.079	Regional Biomass Energy Programs	30,130
81.087	Renewable Energy Research and Development	249,172
81.087	Renewable Energy Research and Development: From Battelle Battelle	4,422
81.087	Renewable Energy Research and Development: From Big Sky ED Authority	175,881
81.089	Fossil Energy Research and Development: From Bechtel BWXT Idaho, LLC	13,582
81.089	Fossil Energy Research and Development: From Ohio University	105,041
81.089	Fossil Energy Research and Development: From Virginia Pol	11,235
81.104	Technology Development for Environmental Management: From Mountain State Energy	306,592
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	192,600
81.119	State Energy Program Special Projects	88,603
81.999	Miscellaneous Non-Major Grants	480,792
81.999	Miscellaneous Non-Major Grants: From Fuel Cell Energy Inc.	21,124
81.999	Miscellaneous Non-Major Grants: From Idaho Nat. Eng. & Env. Lab	9,928
81.999	Miscellaneous Non-Major Grants: From Pacific NW Nat. Lab.	614,001
81.999	Miscellaneous Non-Major Grants: From Resonon, Inc	69,927
81.999	Miscellaneous Non-Major Grants: From Bechtel BWXT Idaho, LLC	38,358
TOTAL		\$3,638,612

DEPARTMENT OF EDUCATION

84.023	Innovation and Development	63,003
84.042	TRIO-Student Support Services	363,363
84.116	Fund for the Improvement of Postsecondary Education	300,455
84.133	National Institute on Disability and Rehabilitation Research	441,250
84.133	National Institute on Disability and Rehabilitation Research: From University of Kansas	18,320
84.215	Fund for Improvement of Education: From Bozeman Sch. Dist.	40,868
84.336	Teacher Quality Enhancement Grants	588
84.350	Transition to Teaching	247,430
93.647	Social Services Research and Demonstration	595,170
TOTAL		\$2,070,447

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

AMOUNT

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.113	Biological Response to Environmental Health Hazards	960,771
93.115	Biometry and Risk Estimation Health Risks from Environmental Exposures: From Harvard College	294,945
93.121	Oral Diseases and Disorders Research	191,329
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention: From Missoula Indian Ctr.	15,077
93.136	Injury Prevention and Control Research and State and Community Based Programs	322,143
93.173	Research Related to Deafness and Communication Disorders	238,532
93.173	Research Related to Deafness and Communication Disorders: From Allegheny-Singer	223,623
93.173	Research Related to Deafness and Communication Disorders: From Univ. of Calif.-S.D.	1,549
93.173	Research Related to Deafness and Communication Disorders: From University of Texas	6,347
93.178	Nursing Workforce Diversity	227,453
93.184	Disabilities Prevention	635,175
93.206	Human Health Studies Applied Research and Development: From Ass. of Ocup. & Eniv.	13,021
93.211	Rural Telemedicine Grants	223,064
93.213	Research and Training in Complementary and Alternative Medicine	14,269
93.226	Health Care Systems Cost and Access Research and Development Grants	401,748
93.242	Mental Health Research Grants	664,899
93.247	Advanced Education Nursing Grant Program: From Oregon Health Sci. Univ.	96,191
93.273	Alcohol Research Programs	74,821
93.279	Drug Abuse Research Programs	23,244
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	468,606
93.287	Bioengineering Research: From Scripps Institute	235,633
93.333	Clinical Research: From Mount Sinai Sch. of Med.	192,584
93.358	Professional Nurse Traineeships	28,873
93.360	General Medical Sciences	12,438
93.361	Nursing Research	463,612
93.371	Biomedical Technology	355,654
93.371	Biomedical Technology: From Sequoia Sci. Inc.	49,337

State of Montana
Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ending June 30, 2003

	AMOUNT
93.371 Biomedical Technology: From Amer. Physiological Soc	5,867
93.389 Research Infrastructure	4,799,797
93.390 Academic Research Enhancement Award	37,033
93.393 Cancer Cause and Prevention Research: From Mount Sinai Sch. of Med.	53,859
93.395 Cancer Treatment Research	92,095
93.396 Cancer Biology Research	50,122
93.612 Native American Programs	15,609
93.674 Independent Living	23,878
93.779 Health Care Financing Research, Demonstrations and Evaluations	703,233
93.821 Cell Biology and Biophysics Research	718,570
93.822 Health Careers Opportunities Program: From Univ. of Washington	21,534
93.838 Lung Diseases Research	1,312,025
93.839 Blood Diseases and Resources Research	353,001
93.846 Arthritis, Musculoskeletal and Skin Diseases Research	62,906
93.849 Kidney Diseases, Urology and Hematology Research	225,361
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders	256,098
93.854 Biological Basis Research in the Neurosciences	305,479
93.855 Allergy, Immunology and Transplantation Research	652,105
93.856 Microbiology and Infectious Diseases Research	2,559,399
93.856 Microbiology and Infectious Diseases Research: From Cornell Univ.	2,800
93.856 Microbiology and Infectious Diseases Research: From Colorado State Univ.	57,694
93.859 Pharmacology, Physiology, and Biological Chemistry Research: From Case West. Rev. Univ.	1,278,679
93.862 Genetics and Developmental Biology Research	287,743
93.862 Genetics and Developmental Biology Research: From University of Minn.	30,620
93.864 Population Research	927
93.865 Center for Research for Mothers and Children	61,774
93.866 Aging Research: From Univ. of Washington	43,580
93.867 Vision Research	355,445
93.887 Project Grants for Renovation or Construction of Non-Acute Health Care Facilities	140,913
93.894 Resource and Manpower Development in the Environmental Health Sciences	(124)
93.901 Communications Programs for Demonstrating the Prevention of Alcohol, and Drug Problems	406,060

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2003

		AMOUNT
93.906	Rural Health Medical Education Demonstration Projects	52,572
93.960	Special Minority Initiatives	95,753
93.978	Preventive Health Services-Sexually Transmitted Diseases Research, Demonstrations	969
93.999	Miscellaneous Non-Major Grants	23,340
93.999	Miscellaneous Non-Major Grants: From MPA Technologies	32,793
93.999	Miscellaneous Non-Major Grants: From Ligocyte Pharm. Inc.	35,151
93.999	Miscellaneous Non-Major Grants: From Univ. of South Dakota	786,642
TOTAL		\$22,376,240
 SOCIAL SECURITY ADMINISTRATION		
96.007	Social Security Research and Demonstration	85,298
TOTAL		\$85,298
 OTHER FEDERAL		
99.999	Other Federal	3,529
TOTAL		\$3,529
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		\$90,827,256
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$1,685,501,627

STATE

STATE OF MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2003, Montana distributed \$532,510 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$7,483,780 in commodities in fiscal year 2003. The value at June 30, 2003 of commodities stored at the state's warehouse is \$2,579,050 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2003 in the Water Pollution Control Revolving Fund Program is \$84,695,921.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2003. The amount of loans outstanding for the program as of June 30, 2003 is \$47,109,491

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2003 is \$617,918.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$92,010,081 in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2003. The outstanding loan balance (including principle, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was \$52,523,523 at June 30, 2003. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2003 of \$16,175,684 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2003. The amount of loans outstanding as of June 30, 2003 is \$28,655,367.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2003 is \$1,499,658.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 03. The state used the CDC price list to calculate the value of doses received. During fiscal year 2003, Montana received 174,155 vaccine doses valued at \$2,734,403.

Tongue River–Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount presented for the Tongue River Rehabilitation Loan (CFDA 15.199) represents the amount of tribal loan funds expended on project costs during fiscal year 2003. The amount of the loan outstanding as of June 30, 2003 is \$10,141,026.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$9,723,984 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY03 Amount</u>	<u>Inventory</u>
10.664	Cooperative Forestry Assistance	\$67,199	\$8,226,499
12.999	Miscellaneous Non-Major	0	\$63,758
47.999	National Science Foundation	\$4,195	\$827,184

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and

Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2003, was \$1,871,863. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a Federal-State partnership. State Unemployment Insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The President of the United States of America signed the Temporary Extended Unemployment Compensation Act (TEUCA) on March 9, 2002. This act initially provided up to 13 weeks of 100 percent federally funded benefits to qualified individuals in each state. The program was due to expire on December 31, 2002, but was extended until August 30, 2003. During state fiscal year 2003, the TEUC program benefit payments totaled \$11,531,994.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for CFDA #17.225:

UI Administrative Costs	\$ 6,740,664
State UI Funds	75,886,511
Federal UI Funds	<u>16,609,999</u>
Total	\$99,237,174

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2003.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.025	Plant and Animal Disease, Pest Control, and Animal Care	41,131
10.200	Grants for Agricultural Research, Special Research Grants	382,424
10.206	Grants for Agricultural Research & Competitive Research Grants	138,968
10.302	Initiative for Future Agriculture and Food Systems	201,251
10.500	Cooperative Extension Service	100,954
10.550	Commodities	2,611,364
10.553	School Breakfast Program	3,486,132
10.555	National School Lunch Program	24,121,704
10.556	Special Milk Program for Children	43,898
10.557	Special Supplemental Nutrition Program for WIC	2,922,770
10.559	Summer Food Program for Children	512,907
10.560	State Administrative Expenses for Child Nutrition	161,206
10.570	Nutrition Program for the Elderly (Commodities)	720,622
10.572	WIC Farmers' Market Nutrition Program (FMNP)	45,447
10.574	Team Nutrition Grants	10,500
10.652	Forestry Research	12,243
10.664	Cooperative Forestry Assistance	1,387,222
10.665	Schools and Roads-Grants to States	12,478,757
10.672	Rural Development, Forestry, and Communities	735,700
10.773	Rural Business Opportunity Grants	38,296
10.961	Scientific Cooperation and Research	10,908
10.999	Department of Agriculture - Miscellaneous	576
11.112	Export Promotion Market Development Cooperation	17,545
12.002	Procurement Technical Assistance For Business Firms	138,014
12.300	Basic and Applied Scientific Research	32,698
12.630	Basic, Applied, and Advanced Research in Science and Engineering	2,694
12.900	Language Grant Program	75,461
12.910	Research & Technology Development	30,193
14.195	Section 8 Housing Assistance Payments Program Special Allocations	14,080,552
14.228	Community Development Block Grant/State's Program	7,483,345
14.239	Home Investment Partnerships Program	3,722,387
14.246	Community Development Block Grants/Economic Development Initiative	108,367
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	135,951
14.871	Section 8 Housing Choice Vouchers	1,304,163
14.999	Miscellaneous Non-Major Program	10,000
15.034	Agriculture on Indian Lands	134,630
15.224	Cultural Resource Management	113,065
15.228	Disposal of Wildlife Surplus	89,650
15.615	Cooperative Endangered Species Conservation Fund	115,916
15.634	State Wildlife Grants	7,640
15.808	U.S. Geological Survey-Research and Data Acquisition	3,623
15.900	Miscellaneous	6,232
15.910	National Natural Landmarks Program	126,456
15.912	National Historic Landmark	64,822
15.915	Technical Preservation Services	10,200
15.916	Outdoor Recreation-Acquisition, Development and Planning	176,251
15.921	Rivers, Trails and Conservation Assistance	49,403
15.999	Miscellaneous Department of the Interior	1,034,425
16.007	State Domestic Preparedness Equipment Support Program	1,305,742
16.523	Juvenile Accountability Incentive Block Grants	1,069,950
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	598,821
16.548	Title V Delinquency Prevention Program	75,000
16.549	Part E State Challenge Activities	33,442
16.554	Public Safety Partnership and Community Policing Grants	41,320
16.575	Crime Victim Assistance	1,538,436
16.579	Byrne Formula Grant Program	1,322,363
16.588	Violence Against Women Formula Grant	705,975
16.592	Local Law Enforcement Block Grant Program	191,440
16.609	Community Prosecution and Project Safe Neighborhoods	22,500
16.710	Public Safety Partnership and Community Policing Grants	59,654
16.727	Enforcing Underage Drinking Laws Program	488,726
17.249	Employment Services and Job Training: Pilot and Demo. Programs	68,889
17.253	Welfare-to-Work Grants to States and Localities	1,944
17.255	Workforce Investment Act	4,009
17.258	WIA Adult Program	3,846,210

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
17.259	WIA Youth Activities	3,640,637
17.260	WIA Dislocated Workers	4,554,682
19.406	College & University Affiliations Program	151,949
20.106	Airport Improvement Program	131,185
20.205	Highway Planning and Construction	4,909,891
20.219	Recreational Trails	354,636
20.301	Railroad Safety	132,010
20.500	Federal Transit-Capital Investment Grants	88,000
20.505	Federal Transit Technical Studies Grant	255,403
20.507	Federal Transit Capital and Operating Assistance Formula Grant	1,450,421
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	425,085
20.514	Transit Planning and Research	107,101
20.600	State and Community Highway Safety	2,583,663
20.701	University Transportation Centers Program	89,408
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	22,107
43.000	NASA	233,034
43.001	Aerospace Education Services Program	12,000
43.002	Technology Transfer	53,684
43.999	Miscellaneous NASA	6,000
45.025	Promotion of the Arts-Partnership Agreements	409,762
45.310	Institute of Museum & Library Services - General Operating Support	83,273
47.041	Engineering Grants	2,119
47.049	Mathematical and Physical Sciences	3,785
47.050	Geosciences	45,099
47.074	Biological Sciences	46,222
47.075	Social, Behavioral, and Economic Sciences	106,006
47.076	Education and Human Resources	1,376,250
47.078	Polar Programs	134,352
59.037	Small Business Development Center	400,000
66.461	Wetland Program Development Grants	9,412
66.500	Environmental Protection: Consolidated Research	292,817
66.606	Surveys, Studies, Investigations and Special Purpose Grants	4,864
66.811	Brownfield Pilots Cooperative Agreements	23,875
81.042	Weatherization Assistance for Low-Income Persons	5,500
81.049	Office of Science Financial Assistance Program	59,976
81.104	Technology Development for Environmental Management	28,500
81.999	Miscellaneous Non Major	70,953
83.544	Public Assistance Grants	1,340,633
83.548	Hazard Mitigation Grant Program	273,374
83.552	Emergency Management Performance Grants	536,807
83.557	Pre-Disaster Mitigation	36,577
84.002	Adult Education-State Grant Program	1,277,336
84.010	Title I Grants to Local Educational Agencies	33,233,672
84.011	Migrant Education-Basic State Grant Program	905,681
84.013	Title I Program for Neglected and Delinquent Children	96,806
84.015	National Resource Centers and Fellowships Program for Language and Area or	16,250
84.027	Special Education - Grants to States	21,923,014
84.048	Vocational Education - Basic Grants to States	3,695,491
84.069	State Student Incentive Grants	161,952
84.116	Fund for the Improvement of Postsecondary Education	115,292
84.133	National Institute on Disability and Rehabilitation Research	69,232
84.153	Business and International Education	10,369
84.173	Special Education - Preschool Grants	1,222,092
84.186	Safe & Drug Free Schools and Communities - State Grants	2,161,246
84.196	Education for Homeless Children and Youth	130,989
84.213	Even Start - State Educational Agencies	1,063,255
84.215	Fund for the Improvement of Education	218,602
84.235	Special Projects & Demonstrations for Providing Vocation Rehab Services	91,002
84.243	Tech-Prep Education	336,919
84.264	Rehabilitation Training-Continuing Education	22,915
84.281	Eisenhower Professional Development State Grants	141,396
84.287	Twenty-First Century Community Learning Centers	1,219,022
84.298	Innovative Education Program Strategies	1,602,110
84.303	Technology Innovation Challenge Grants	17,444
84.318	Technology Literacy Challenge Fund Grants	1,358,460

CFDA Number	Program Title	Amount Provided To Subrecipient
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	67,181
84.324	Special Education-Research and Innovation to Improve Services and Results for	168,150
84.330	Advanced Placement Incentive Program	137,655
84.332	Comprehensive School Reform Demonstration	267,045
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	642,054
84.338	Reading Excellence	4,874,607
84.339	Learning Anytime Anywhere Partnerships	126,380
84.340	Class Size Reduction	163,257
84.348	Title I Accountability Grants	319,298
84.352	School Renovation Grants	3,145,130
84.358	Rural Education Achievement Program	400,385
84.360	Dropout Prevention Programs	145,000
84.365	English Language Acquisition Grants	59,458
84.367	Improving Teacher Quality State Grants	11,998,379
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	18,802
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	65,087
93.043	Special Programs for the Aging - Title III, Part F: Disease Prevention	107,830
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,469,996
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,444,086
93.052	Nation Family Caregiver Support Program	729,401
93.110	Maternal and Child Health Federal Consolidated Programs	47,992
93.113	Biological Response to Environmental Health Hazards	30,693
93.115	Biometry and Risk Estimation_Health Risks from Environmental Exposures	12,146
93.150	Projects for Assistance in Transition from Homelessness (PATH)	273,807
93.173	Research Related to Deafness and Communication Disorders	28,238
93.184	Disabilities Prevention	25,586
93.217	Family Planning Services	1,183,825
93.226	Research on Healthcare Costs, Quality and Outcomes	20,184
93.230	Consolidated Knowledge Development and Application (KD&A) Program	2,460,161
93.235	Abstinence Education	22,147
93.241	State Rural Hospital Flexibility Program	411,605
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	241,847
93.375	Minority Biomedical Research Support	937,500
93.389	Research Infrastructure	193,208
93.556	Family Preservation and Support Services	778,819
93.558	Temporary Assistance for Needy Families (TANF)	230,242
93.566	Refugee and Entrant Assistance-State Administered Programs	86,275
93.575	Child Care and Development Block Grant	4,927,934
93.576	Refugee and Entrant Assistance-Discretionary Grants	60,914
93.590	Community-Based Family Resource and Support Grants	76,048
93.600	Head Start	123,372
93.647	Social Services Research and Demonstration	208,943
93.658	Foster Care Title IV-E	1,853,614
93.671	Family Violence Prevention and Services/Grants for Battered Women	773,997
93.674	Independent Living	171,261
93.779	Health Care Financing Research, Demonstrations, and Evaluations	111,150
93.822	Health Careers Opportunities Program	382,201
93.854	Biological Basis Research in the Neurosciences	22,834
93.901	Communications Programs for Demonstrating the Prevention of Alcohol, and Drug	392,000
93.926	Healthy Start Initiative	(21,999)
93.940	HIV Prevention Activities-Health Department Based	93,063
93.959	Block Grants for Prevention and Treatment of Substance Abuse	6,672,033
93.969	Geriatric Education Centers	17,594
93.991	Preventive Health and Health Services Block Grant	152,359
93.994	Maternal and Child Health Services Block Grant to the States	1,195,507
94.004	Learn and Serve America - School and Community Based Program	41,401
94.005	Learn and Serve America - Higher Education	17,324
94.006	AmeriCorps	1,352,857
96.007	Social Security Research and Demonstration	75,624
99.999	Miscellaneous - Non Major	110,404
TOTAL		239,338,573

FY02 Financial Section

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated December 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the state of Montana's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is described below.

The Department of Administration is responsible for reconciling activity in all bank accounts for the state of Montana. The state converted to a new accounting system in fiscal year 2000. Since the conversion, the department has been unable to reconcile bank activity to the accounting records. The ability to promptly reconcile bank records to the accounting records is a key control which management needs to ensure the accounting records accurately reflect the cash balances.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a long, sweeping horizontal line extending to the right.

James Gillett, CPA

Deputy Legislative Auditor

December 31, 2002

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2002, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents .12 and 2.55 percent, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the

financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

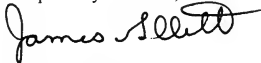
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages C-1 through C-8 and C-76 through C-78, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 2, the state of Montana has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2002.

In accordance with *Government Auditing Standards*, we have issued our report dated December 31, 2002, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report, on page A-1, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

December 31, 2002

State of Montana
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2002

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

Because the State of Montana is implementing new reporting standards of the Governmental Accounting Standards Board's Statement No. 34 for this fiscal year, which involves significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the State's financial position and results of operations.

FINANCIAL HIGHLIGHTS –PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2002 by \$2.9 billion (reported as net assets). Of this amount, \$157.3 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$653.7 million.

Fund Highlights

As of the close of fiscal year 2002, the State's governmental funds reported combined ending fund balances of \$2.1 billion. Of this amount, \$554 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$1.52 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$81.3 million.

Long-term Debt

The State's total long-term debt obligations decreased by \$41.8 million (or 9.3 percent) during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements* and combining major component unit financial statements. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State include the Unemployment Insurance Fund and the Industrial Development Bond Program that assists Montana's small businesses and local governments in obtaining long-term fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources

available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are – the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal service funds report activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$2.9 billion at the end of fiscal year 2002.

The largest portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (66.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets as of June 30, 2002

(expressed in thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and Other Assets	\$2,627,061	\$309,293	\$2,936,354
Capital Assets	1,038,746	14,658	1,053,404
Total Assets	3,665,807	323,951	3,989,758
Long-term Liabilities	356,517	14,890	371,407
Other Liabilities	613,027	75,632	688,659
Total Liabilities	969,544	90,522	1,060,066
Invested in Capital Assets, Net of Related Debt	814,026	12,496	826,522
Restricted	1,742,193	203,710	1,945,903
Unrestricted	140,044	17,223	157,267
Total Net Assets	\$2,696,263	\$233,429	\$2,929,692

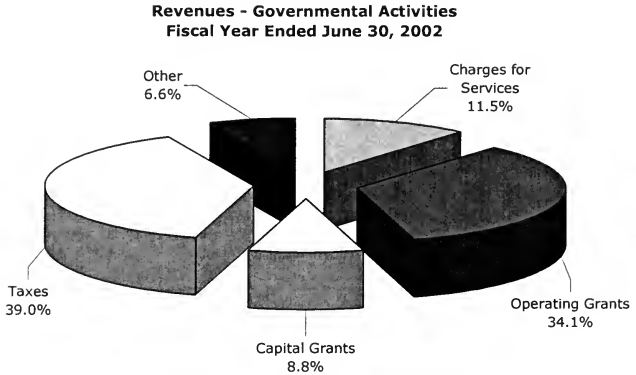
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets
For Fiscal Year Ended June 30, 2002
(expressed in thousands)

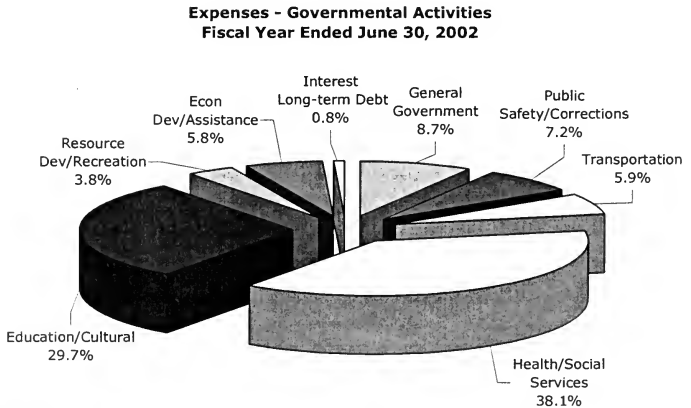
	Governmental Activities	Business-type Activities	Total Primary Government
Revenues:			
Program Revenues			
Charges for Services	\$ 364,614	\$189,771	\$ 554,385
Operating Grants	1,080,374	29,335	1,109,709
Capital Grants	280,489	602	281,091
General Revenues			
Taxes	1,238,151	12,907	1,251,058
Other	207,193	17,419	224,612
Total Revenues	3,170,821	250,034	3,420,855
Expenses:			
General Government	248,089	-	248,089
Public Safety/Corrections	205,983	-	205,983
Transportation	169,282	-	169,282
Health/Social Services	1,086,012	-	1,086,012
Educational/Cultural	845,324	-	845,324
Resource Dev/Recreation	108,642	-	108,642
Econ Dev/Assistance	164,761	-	164,761
Interest on Long-term Debt	22,763	-	22,763
Unemployment Insurance	-	83,944	83,944
Liquor Stores	-	38,074	38,074
State Lottery	-	26,585	26,585
Economic Dev Bonds	-	3,251	3,251
Hail Insurance	-	2,045	2,045
Gen Gov't Services	-	11,134	11,134
Prison Funds	-	5,444	5,444
MUS Group Insurance	-	34,594	34,594
Total Expenses	2,850,856	205,071	3,055,927
Increase (decrease) in Net			
Assets Before Transfers	319,965	44,963	364,928
Transfers	26,756	(26,756)	-
Change in Net Assets	346,721	18,207	364,928
Net Assets, Beg of Year (restated)	2,349,542	215,222	2,564,764
Net Assets, End of Year	\$2,696,263	\$233,429	\$2,929,692

Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year:



The following chart depicts expenses of the governmental activities for the fiscal year:



Business-type Activities

Net assets of the business-type activities increased by \$18.2 million during the fiscal year. The majority of this increase is because in fiscal year 2002 the Unemployment Insurance Program received \$18.5 million from the Reed Act. These dollars may be used to fund Wagner Peyser activities, unemployment insurance administration, or pay unemployment benefits.

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As the State completed the year, its governmental funds reported fund balances of \$2.1 billion. Of this total amount, \$554 million, or 26.4%, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$81.3 million. Total fund balance diminished during the fiscal year by \$93.2 million, primarily because of lower tax collections and the slowing of the economy.

General Fund Budgetary Highlights

Differences between the original budget and the final budget were relatively minor (\$45 million) and can be briefly summarized as follows:

1. The Department of Natural Resources and Conservation received a supplemental appropriation of \$3.3 million to fight fires.
2. Office of Public Instruction moved \$34.9 million of their budget for special education from FY2003 to FY2002. This program has a biennial appropriation that is split into two fiscal years, but the agency was required to transfer the entire appropriation from FY2003 into FY2002, even though they only needed \$4,000 in FY2002.
3. Agencies requested \$696,325 in carry forward authority for 30 percent of their reverted appropriations in FY2002 per 17-7-304(4), MCA.
4. Department of Public Health and Human Services requested \$3.9 million in authority be moved from FY2003 to FY2002 to cover shortfalls in Medicaid hospital, physician services and mental health services, and child support enforcement services.
5. Department of Public Health and Human Services requested \$1.2 million of their biennial appropriation for the Mental Health Program be moved from FY2003 to FY2002 to cover expenditures in FY2002.
6. Department of Justice requested \$200,000 of their biennial appropriation for major litigation be moved from FY2003 to FY2002 to cover FY2002 expenditures. They also requested \$112,894 of their biennial appropriation for prisoner per diem costs be moved from FY2003 to FY2002 to cover FY2002 expenditures.

The supplemental appropriations were funded from available fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$1.4 billion, net of accumulated depreciation of \$309 million, leaving a net book value of \$1.1 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 69% in terms of net book value. The significant increase in capital assets is the inclusion of infrastructure assets and highway construction. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Depreciation charges for the year totaled \$30 million. Additional information on the State's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue. State debt may be authorized by a two-thirds vote of the members of each house of the Legislature or by a majority of the electors voting thereon.

The State of Montana's general obligation debt decreased from \$236.732 million at June 30, 2001, to \$214.135 million at June 30, 2002.

The ratio of general obligation debt to assessed valuation and the amount of general obligation debt per capita are:

	Amount <i>(in thousands)</i>	Ratio Debt to 2001 Assessed Value	State Debt Per Capita*
General Obligation Debt	\$214,135	38%	\$236.88

*Based on a 2001 estimated Montana population

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 3.4 percent in the third quarter of 2002, which is a decrease from a rate of 3.8 percent during the third quarter of 2001. This compares favorably with the nation's average unemployment rate of 6.2 percent.

In November 2001, a significant downturn in General Fund revenues was identified, and in the last half of fiscal year 2002, revenues dropped off from regular Legislative session estimates by \$153 million. The primary reasons for the decline in revenues were a sharp decline in net capital gains income due to the prolonged decline in equity markets, a sharp economic recession, and federal economic stimulus legislation that impacted state income tax revenues. The Governor directed statutory spending reductions of \$23 million, and the Legislature came into special session to adopt \$59 million in budget balancing actions, leaving an ending fund balance projection of \$40 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, Montana 59620.

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STATE OF MONTANA
STATEMENT OF NET ASSETS
JUNE 30, 2002
(expressed in thousands)

	PRIMARY GOVERNMENT				
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT	
	ACTIVITIES	ACTIVITIES	TOTALS	UNITS	
ASSETS					
Cash/cash equivalents (Note 3)	\$ 436,534	\$ 222,650	\$ 659,184	\$ 150,917	
Receivables (net)	228,701	21,969	250,670	58,659	
Due from primary government	-	-	-	2,136	
Due from other governments	140,365	-	140,365	-	
Due from component units	1,192	974	2,166	569	
Internal balances	9,777	(9,777)	-	-	
Inventories	25,408	6,474	31,882	4,477	
Long-term loans/notes receivable	156,274	9,241	165,515	667,517	
Equity in pooled investments (Note 3)	1,167,726	-	1,167,726	3,014	
Investments (Note 3)	326,981	3,600	330,581	758,330	
Securities lending collateral (Note 3)	126,668	1,104	127,772	74,335	
Deferred charges	448	985	1,433	8,630	
Restricted assets:					
Cash/cash equivalents (Note 3)	-	-	-	1,513	
Notes/loans receivable	-	45,801	45,801	-	
Investments (Note 3)	-	3,706	3,706	-	
Capital assets (Note 4):					
Land	266,230	800	267,030	11,148	
Land improvements	9,661	222	9,883	20,805	
Buildings/improvements	305,086	8,964	314,050	568,112	
Equipment	229,841	9,449	239,290	118,890	
Infrastructure	253,676	884	254,560	30,702	
Other capital assets	66,639	1,154	67,793	118,914	
Construction in progress	170,884	71	170,955	17,170	
Intangible assets	37,514	1,472	38,986	6,864	
Less accumulated depreciation	(300,785)	(8,358)	(309,143)	(428,474)	
Total capital assets	1,038,746	14,658	1,053,404	464,131	
Other assets	6,987	2,566	9,553	5,511	
Total assets	3,665,807	323,951	3,989,758	2,209,739	
LIABILITIES					
Accounts payable	304,639	5,990	310,629	44,156	
Lottery prizes payable	-	3,044	3,044	-	
Due to primary government	-	-	-	2,166	
Due to other governments	3,854	-	3,854	28,685	
Due to component units	2,131	5	2,136	569	
Deferred revenue	79,327	2,271	81,598	17,519	
Lease/installment purchase payable (Note 10)	3,652	-	3,652	2,045	
Bonds/notes payable (net) (Note 11)	336,558	71,204	407,762	903,503	
Property held in trust	4,454	629	5,083	4,906	
Securities lending liability (Note 3)	126,668	1,104	127,772	74,335	
Compensated absences payable (Note 11)	66,456	978	67,434	39,328	
Estimated insurance claims (Note 8)	39,012	5,125	44,137	437,301	
Early retirement benefits payable (Note 11)	336	-	336	-	
Arbitrage rebate tax payable	1,451	172	1,623	1,503	
Other liabilities	1,006	-	1,006	-	
Total liabilities	969,544	90,522	1,060,066	1,556,016	

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 814,026	\$ 12,496	\$ 826,522	\$ 259,223
Restricted for:				
Transportation	80,159	-	80,159	-
Fish, wildlife, and parks	43,889	-	43,889	-
Federal grants	23,148	-	23,148	-
Construction and debt service	6,305	-	6,305	-
Unemployment compensation	-	195,572	195,572	-
Funds held as permanent investments:				
Expendable	176,500	-	176,500	10,528
Nonexpendable	1,269,066	-	1,269,066	9,392
Housing authority	-	-	-	121,403
Reclamation	140,156	-	140,156	-
Other purposes	2,970	8,138	11,108	13,178
Unrestricted	140,044	17,223	157,267	239,999
Total net assets	\$ 2,696,263	\$ 233,429	\$ 2,929,692	\$ 653,723

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
Primary government:						
Governmental activities:						
General government	\$ 248,089	\$ 38,368	\$ 22,835	\$ 27	\$	(186,859)
Public safety/corrections	205,983	122,840	63,899	-		(19,244)
Transportation	169,282	32,269	5,408	280,442		148,837
Health/social services	1,086,012	40,847	761,197	-		(283,968)
Education/cultural	845,324	69,242	107,926	20		(668,136)
Resource development/recreation	108,642	45,787	16,803	-		(46,052)
Economic development/assistance	164,761	15,261	102,306	-		(47,194)
Interest on long-term debt	22,763	-	-	-		(22,763)
Total governmental activities	2,850,856	364,614	1,080,374	280,489		(1,125,379)
Business-type activities:						
Unemployment Insurance	83,944	59,771	29,335	-		5,162
Liquor Stores	38,074	45,630	-	-		7,556
State Lottery	26,585	33,670	-	-		7,085
Economic Development Bonds	3,251	13	-	-		(3,238)
Hail Insurance	2,045	301	-	-		(1,744)
General Government Services	11,134	11,202	-	602		670
Pnson Funds	5,444	5,583	-	-		139
MUS Group Insurance	34,594	33,601	-	-		(993)
Total business-type activities	205,071	189,771	29,335	602		14,637
Total primary government	\$ 3,055,927	\$ 554,385	\$ 1,109,709	\$ 281,091	\$	(1,110,742)
Component units:						
Authorities:						
Housing Authority	\$ 46,396	\$ 235	\$ 241	\$ -	\$	(45,920)
Facility Finance Authority	231	256	-	-		25
State Compensation Insurance (New Fund)	122,285	93,259	-	-		(29,026)
State Compensation Insurance (Old Fund)	832	-	-	-		(832)
State University System:						
Montana State University	303,672	129,601	95,363	7,367		(71,341)
University of Montana	240,114	104,750	65,216	1,579		(68,569)
Total component units	\$ 713,530	\$ 328,101	\$ 160,820	\$ 8,946	\$	(215,663)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
Changes in net assets:				
Net (expense) revenue	\$ (1,125,379)	\$ 14,637	\$ (1,110,742)	\$ (215,663)
General revenues:				
Taxes:				
Property	167,488	-	167,488	-
Fuel	191,248	-	191,248	-
Natural resource	96,336	-	96,336	-
Individual income	525,647	-	525,647	-
Corporate income	69,176	-	69,176	-
Other	188,256	12,907	201,163	30
Settlements	58,549	-	58,549	-
Unrestricted investment earnings	151,716	16,382	168,098	99,936
Payment from State of Montana	-	-	-	139,374
Gain (loss) on sale of capital assets	(7,532)	(3)	(7,535)	79
Miscellaneous	4,460	1,040	5,500	7,291
Transfers	26,756	(26,756)	-	-
Total general revenues and transfers	1,472,100	3,570	1,475,670	246,710
Change in net assets	346,721	18,207	364,928	31,047
Total net assets - July 1	2,347,525	209,766	2,557,291	624,113
Prior period adjustments	2,017	5,456	7,473	(1,437)
Total net assets - July 1 - as restated	2,349,542	215,222	2,564,764	622,676
Total net assets - June 30	\$ 2,696,263	\$ 233,429	\$ 2,929,692	\$ 653,723

STATE OF MONTANA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
(expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTALS
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
ASSETS							
Cash/cash equivalents (Note 3)	\$ 33,941	\$ 243,508	\$ 34,963	\$ 35,727	\$ 11,892	\$ 57,647	\$ 417,678
Receivables (net)	117,265	74,414	8,004	8,053	5,052	4,485	217,273
Interfund loans receivable (Note 12)	80,907	44,376	241	-	-	-	125,524
Due from other governments	59	1,182	139,122	-	-	-	140,363
Due from component units	407	417	67	-	-	25	916
Due from other funds (Note 12)	19,878	12,638	1,349	3	6,835	1,252	41,955
Inventories	2,506	22,030	30	-	-	-	24,566
Equity in pooled investments (Note 3)	-	190,258	-	412,040	418,389	147,037	1,167,724
Long-term loans/notes receivable	67	119,451	911	-	-	35,846	156,275
Advances to other funds (Note 12)	160	10,305	300	46,368	-	1,698	58,831
Investments (Note 3)	-	110,716	5,267	186,108	-	16,227	318,318
Securities lending collateral (Note 3)	-	32,445	-	36,100	36,657	18,777	123,979
Other assets	3,823	1,128	1,619	-	-	4	6,574
Total assets	\$ 259,013	\$ 862,868	\$ 191,873	\$ 724,399	\$ 478,825	\$ 282,998	\$ 2,799,976
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	113,379	85,091	76,701	-	4,937	3,652	283,760
Interfund loans payable (Note 12)	-	39,143	75,803	-	-	4,425	119,371
Advances from other funds (Note 12)	-	49,253	356	-	-	8,996	58,605
Due to other governments	18	1,425	2,411	-	-	-	3,854
Due to component units	12,471	812	856	-	408	3	14,550
Due to other funds (Note 12)	3,304	6,362	4,113	5,907	15,198	2,418	37,302
Deferred revenue	39,313	31,781	8,095	-	-	31	79,220
Property held in trust	1,285	2,536	389	-	-	191	4,401
Securities lending liability (Note 3)	-	32,445	-	36,100	36,657	18,777	123,979
Other liabilities	-	50	3	-	-	-	53
Total liabilities	169,770	248,898	168,727	42,007	57,200	38,493	725,095
Fund balances:							
Reserved for:							
Encumbrances	5,194	22,712	12,157	-	-	442	40,505
Inventories	2,506	22,030	-	-	-	-	24,536
Long-term loans	67	119,451	911	-	-	35,846	156,275
Long-term advances (Note 12)	160	10,305	300	46,367	-	1,698	58,830
Debt service	-	-	-	-	-	6,000	6,000
Trust principal (Note 14)	-	-	-	636,025	421,625	165,047	1,222,697
Fed Family Ed Loan Prog (Note 14)	-	-	12,062	-	-	-	12,062
Unreserved, designated (Note 1)	3,200	378	-	-	-	24,630	28,208
Unreserved, undesignated, reported in:							
General fund	78,116	-	-	-	-	-	78,116
Special revenue funds	-	439,094	(2,284)	-	-	-	436,810
Debt service funds	-	-	-	-	-	(2,645)	(2,645)
Capital projects funds	-	-	-	-	-	13,487	13,487
Total fund balances	89,243	613,970	23,146	682,392	421,625	244,505	2,074,881
Total liabilities and fund balances	\$ 259,013	\$ 862,868	\$ 191,873	\$ 724,399	\$ 478,825	\$ 282,998	\$ 2,799,976

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2002
 (expressed in thousands)

Total fund balances for governmental funds \$ 2,074,881

Amounts reported for governmental activities in the statement of net assets
 are different because:

Capital assets used in governmental activities are not financial resources
 and therefore not reported in the funds. (Note 4)

Land	265,994	
Land improvements	9,566	
Buildings/improvements	302,293	
Equipment	68,211	
Infrastructure	253,676	
Other capital assets	66,639	
Construction in progress	170,127	
Intangible assets	37,308	
Less accumulated depreciation	<u>(209,104)</u>	964,710

Certain tax revenues are earned, but not available and therefore deferred
 in the funds. 8,538

Internal service funds are used by management to charge the costs of
 certain activities, such as insurance and central computer services, to
 individual funds. The assets and liabilities of the internal service funds
 are included in the governmental activities in the statement of net assets. 48,343

Deferred issue costs are reported as current expenditures in the funds.
 These costs are amortized over the life of the bonds and included
 in governmental activities in the statement of net assets. 448

Long-term liabilities, including bonds payable, are not due and payable in the
 current period and therefore are not reported in the funds.

Accrued interest	(2,344)	
Lease/installment purchase payable (Note 10)	(1,608)	
Bonds/notes payable (net) (Note 11)	(331,642)	
Compensated absences payable (Note 11)	(62,323)	
Early retirement benefits payable (Note 11)	(336)	
Arbitrage rebate tax payable (Note 11)	(1,451)	
Other liabilities	<u>(953)</u>	(400,657)

Net assets of governmental activities \$ 2,696,263

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(expressed in thousands)

	SPECIAL REVENUE			PERMANENT			TOTALS
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	
REVENUES							
Licenses/permits	\$ 115,644	\$ 85,586	\$ -	\$ -	\$ 907	\$ 353	\$ 202,490
Taxes:							
Natural resource	25,018	49,385	-	15,610	-	6,323	96,336
Individual income	518,112	-	-	-	-	-	518,112
Corporate income	68,173	-	-	-	-	-	68,173
Property	167,178	310	-	-	-	-	167,488
Fuel	-	191,235	-	-	-	13	191,248
Other (Note 1)	151,200	35,335	1	-	-	1,720	188,256
Charges for services/fees/forfeits/settlements	51,658	74,583	32,324	-	-	13,761	172,324
Investment earnings	12,991	28,762	618	47,930	36,546	19,137	145,984
Securities lending income	608	888	7	1,207	1,209	539	4,458
Sale of documents/merchandise/property	291	6,704	2	-	6,488	2,086	15,571
Rentals/leases/royalties	57	530	-	-	23,721	130	24,438
Contributions/premiums	-	6,094	-	-	-	-	6,094
Grants/contracts/donations	1,220	19,480	81	-	-	83	20,864
Federal	22,334	1,284	1,316,233	-	-	-	1,339,851
Federal indirect cost recoveries	94	-	2,667	-	-	-	2,761
Other revenues	488	3,297	532	-	9	133	4,459
Total revenues	1,135,066	503,473	1,352,465	64,747	68,880	44,278	3,168,909
Intrafund revenues	-	(481)	(1,075)	-	-	-	(1,556)
Net revenues	1,135,066	502,992	1,351,390	64,747	68,880	44,278	3,167,353
EXPENDITURES							
Current:							
General government	155,774	64,699	3,667	-	-	4,632	228,772
Public safety/corrections	129,000	29,325	29,873	-	-	1,309	189,507
Transportation	174	154,452	285,546	-	-	-	440,172
Health/social services	277,805	69,842	731,656	-	-	-	1,079,303
Education/cultural	661,586	64,549	132,357	-	2,539	3	861,034
Resource development/recreation	26,350	63,878	21,160	-	-	-	111,388
Economic development/assistance	21,550	47,730	94,136	-	-	479	163,895
Debt service:							
Principal retirement	523	1,211	182	-	-	34,842	36,758
Interest/fiscal charges	59	3,949	20	-	-	15,752	19,780
Capital outlay	1,865	22,626	11,844	-	-	28,721	65,056
Securities lending	531	778	6	1,072	1,074	475	3,936
Total expenditures	1,275,217	523,039	1,310,447	1,072	3,613	86,213	3,199,601
Intrafund expenditures	-	(481)	(1,075)	-	-	-	(1,556)
Net expenditures	1,275,217	522,558	1,309,372	1,072	3,613	86,213	3,198,045
Excess of revenue over (under) expenditures	(140,151)	(19,566)	42,018	63,675	65,267	(41,935)	(30,692)
OTHER FINANCING SOURCES (USES)							
Loan proceeds	-	727	-	-	-	1,405	2,132
Bond proceeds	-	1,785	-	-	-	-	1,785
Proceeds of refunding bonds	-	33,605	-	-	-	-	33,605
Discount on bonds/notes issued	-	(139)	-	-	-	-	(139)
Payment to refunded bond escrow agent	-	(21,037)	-	-	-	(13,719)	(34,756)
Inception of lease/installment contract	233	48	201	-	-	-	482
General capital asset sale proceeds	82	227	1	-	-	-	310
Operating transfers in (Note 12)	73,739	122,004	8,054	219	46,451	70,895	321,362
Operating transfers out (Note 12)	(33,651)	(89,367)	(53,210)	(43,120)	(54,387)	(22,994)	(296,729)
Total other financing sources (uses)	40,403	47,853	(44,954)	(42,901)	(7,936)	35,587	28,052
Excess of revenues/other sources over (under) expenditures/other uses	(99,748)	26,287	(2,936)	20,774	57,331	(6,348)	(2,640)
Fund balances - July 1 - as previously reported	182,429	581,903	32,490	661,618	415,554	254,644	2,128,638
Prior period adjustments (Note 2)	7,445	4,566	(6,408)	-	-	(3,791)	1,812
Cumulative effect of acctg change (Note 2)	-	-	-	-	(51,260)	-	(51,260)
Fund balances - July 1 - as restated	189,874	586,469	26,082	661,618	364,294	250,853	2,079,190
Increase (decrease) in inventories	(883)	(786)	-	-	-	-	(1,669)
Fund balances - June 30	\$ 89,243	\$ 613,970	\$ 23,146	\$ 682,392	\$ 421,625	\$ 244,505	\$ 2,074,881

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2002
(expressed in thousands)

Net change in fund balances - total governmental funds \$ (2,640)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by
which capital outlays exceeded depreciation in the current period. (Note 4)

Capital outlay	354,013	
Depreciation expense	<u>(17,451)</u>	336,562

In the statement of activities, only the gain or loss on the sale of
capital assets is reported. However, in the governmental funds,
the proceeds from the sale increase financial resources. Thus,
the change in net assets differs from the change in fund balance
by the cost of the capital assets sold. (7,842)

Donations of capital assets or transfers of capital assets to other
funds affects net assets in the statement of activities, but these
transactions do not appear in the governmental funds because they
are not financial resources. (3,682)

Inventories of governmental funds are recorded as expenditures
when purchased. However, in the statement of activities, inventories
are expensed when consumed. (1,669)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds. 8,526

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and central computer services, to
individual funds. The net revenue (expense) of the internal service funds
is reported with governmental activities. (9,224)

The incurrence of long-term debt (e.g., bonds, leases) provides current financial
resources to governmental funds, while the repayment of the principal of long
term debt consumes the current financial resources of governmental funds.
Neither transaction, however, has any effect on net assets. Also, governmental
funds report the effect of issuance costs, premiums, discounts, and similar items
when debt is first issued, whereas these amounts are deferred and amortized
in the statement of activities. The details of these differences is as follows:

Loan proceeds	(2,132)	
Bond proceeds	(1,785)	
Proceeds of refunding bonds	(33,605)	
Discount on bonds/notes issued	139	
Capital lease financing	(482)	
Principal retirement	36,758	
Payment to refunded bond escrow agent	34,756	
Issuance costs	482	
Bond issuance costs amortization	(34)	
Bond refunding loss amortization	(93)	
Bond discount amortization	<u>(9)</u>	33,995

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(2,490)	
Compensated absences	(3,471)	
Early retirement benefits	19	
Arbitrage rebate tax	(1,166)	
Other liabilities	(197)	(7,305)

Change in net assets of governmental activities

\$ 346,721

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2002
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTALS	
ASSETS					
Current assets:					
Cash/cash equivalents	\$ 193,761	\$ 7,810	\$ 21,079	\$ 222,650	\$ 18,855
Receivables (net)	2,373	5,617	13,980	21,970	2,738
Interfund loans receivable (Note 12)	-	-	6	6	315
Due from other funds (Note 12)	18	-	282	300	6,237
Due from component units	-	-	974	974	356
Inventories	-	-	6,474	6,474	842
Short-term investments	-	1,444	-	1,444	-
Securities lending collateral (Note 3)	-	-	1,104	1,104	2,689
Other current assets	-	-	170	170	412
Total current assets	196,152	14,871	44,069	255,092	32,444
Noncurrent assets:					
Restricted assets:					
Restricted notes/loans receivable	-	45,801	-	45,801	-
Restricted investments	-	3,706	-	3,706	-
Total restricted assets	-	49,507	-	49,507	-
Advances to other funds (Note 12)	-	-	676	676	-
Long-term investments (Note 3)	-	414	1,742	2,156	8,663
Long-term notes/loans receivable	-	9,238	3	9,241	-
Deferred charges	-	985	-	985	-
Other long-term assets	-	-	2,393	2,393	-
Capital assets (Note 4):					
Land	-	-	800	800	236
Land improvements	-	-	222	222	95
Buildings/improvements	-	-	8,964	8,964	2,793
Equipment	-	12	9,437	9,449	161,630
Infrastructure	-	-	884	884	-
Other capital assets	-	-	1,154	1,154	-
Construction in progress	-	-	71	71	757
Intangible assets	-	-	1,472	1,472	206
Less accumulated depreciation	-	(4)	(8,352)	(8,356)	(91,681)
Total capital assets	-	8	14,652	14,660	74,036
Total noncurrent assets	-	60,152	19,466	79,618	82,699
Total assets	196,152	75,023	63,535	334,710	115,143

STATE OF MONTANA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2002
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTALS		
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 97	\$ 805	\$ 5,087	\$ 5,989	\$	5,762
Lottery prizes payable	-	-	1,337	1,337		-
Interfund loans payable (Note 12)	-	-	275	275		6,200
Due to component units	-	-	5	5		39
Due to other funds (Note 12)	152	4	10,218	10,374		1,051
Deferred revenue	-	18	2,217	2,235		109
Lease/installment purchase payable (Note 10)	-	-	-	-		1,291
Bonds/notes payable - net (Note 11)	-	59,330	1,055	60,385		2,075
Property held in trust	331	172	126	629		54
Securities lending liability (Note 3)	-	-	1,104	1,104		2,689
Estimated insurance claims (Note 8)	-	-	3,348	3,348		15,085
Compensated absences payable (Note 11)	-	18	473	491		2,090
Arbitrage rebate tax payable	-	72	-	72		-
Total current liabilities	580	60,419	25,245	86,244		36,445
Long-term liabilities:						
Lottery prizes payable	-	-	1,707	1,707		-
Advances from other funds (Note 12)	-	-	111	111		790
Deferred revenue	-	36	-	36		-
Lease/installment purchase payable (Note 10)	-	-	-	-		753
Bonds/notes payable - net (Note 11)	-	9,709	1,110	10,819		2,841
Estimated insurance claims (Note 8)	-	-	1,777	1,777		23,928
Compensated absences payable (Note 11)	-	16	471	487		2,043
Arbitrage rebate tax payable	-	100	-	100		-
Total long-term liabilities	-	9,861	5,176	15,037		30,355
Total liabilities	580	70,280	30,421	101,281		66,800
NET ASSETS						
Invested in capital assets, net of related debt	-	8	12,487	12,495		69,119
Restricted for:						
Unemployment Compensation	195,572	-	-	195,572		-
Other Purposes	-	2,460	5,678	8,138		-
Unrestricted	-	2,275	14,949	17,224		(20,776)
Total net assets	\$ 195,572	\$ 4,743	\$ 33,114	\$ 233,429	\$	48,343

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTALS	
Operating revenues:					
Charges for services	\$ -	\$ 12	\$ 89,464	\$ 89,476	\$ 87,053
Investment earnings	12,200	576	688	13,464	1,126
Securities lending income	-	-	25	25	148
Financing income	-	2,893	-	2,893	-
Contributions/premiums	59,598	-	40,513	100,111	73,280
Grants/contracts/donations	29,335	-	-	29,335	-
Taxes	-	-	12,907	12,907	2
Other operating revenues	710	-	514	1,224	2,052
Total operating revenues	101,843	3,481	144,111	249,435	163,661
Operating expenses:					
Personal services	-	172	8,728	8,900	30,539
Contractual services	-	65	10,865	10,930	13,809
Supplies/materials	-	8	39,415	39,423	16,280
Benefits/claims	83,775	-	37,334	121,109	86,723
Depreciation	-	2	1,055	1,057	10,596
Amortization	-	-	187	187	592
Utilities/rent	-	38	536	574	8,509
Communications	-	8	1,040	1,048	9,304
Travel	-	5	135	140	449
Repair/maintenance	-	1	325	326	7,021
Lottery prize payments	-	-	17,104	17,104	-
Interest expense	-	2,872	134	3,006	342
Securities lending expense	-	-	22	22	132
Arbitrage rebate tax	-	47	-	47	-
Other operating expenses	-	33	1,097	1,130	1,741
Total operating expenses	83,775	3,251	117,977	205,003	186,037
Operating income (loss)	18,068	230	26,134	44,432	(22,376)
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	-	-	(3)	(3)	144
Federal indirect cost recoveries	-	-	-	-	4,217
Increase (decrease) value of livestock	-	-	(68)	(68)	-
Total nonoperating revenues (expenses)	-	-	(71)	(71)	4,361
Income (loss) before contributions and transfers	18,068	230	26,063	44,361	(18,015)
Capital contributions	-	-	602	602	3,833
Operating transfers in (Note 12)	-	-	120	120	3,400
Operating transfers out (Note 12)	-	-	(26,876)	(26,876)	(986)
Change in net assets	18,068	230	(91)	18,207	(11,768)
Total net assets - July 1 - as previously reported	177,577	4,490	22,583	204,650	38,154
Prior period adjustments (Note 2)	(73)	-	5,529	5,456	2,544
Cumulative effect of accounting change (Note 2)	-	23	5,093	5,116	19,413
Total net assets - July 1 - as restated	177,504	4,513	33,205	215,222	60,111
Total net assets - June 30	\$ 195,572	\$ 4,743	\$ 33,114	\$ 233,429	\$ 48,343

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(expressed in thousands)

	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 59,404	\$ 12	\$ 129,386	\$ 188,802	\$ 161,954
Payments to suppliers for goods and services	-	(159)	(52,957)	(53,116)	(57,993)
Payments to employees	-	(183)	(8,790)	(8,973)	(30,751)
Grant receipts	29,335	-	-	29,335	4,097
Cash payments for claims	(83,733)	-	(37,803)	(121,536)	(80,076)
Cash payments for prizes	-	-	(17,305)	(17,305)	-
Collection of payroll taxes	-	-	-	-	2
Other operating revenues	710	-	286	996	731
Net cash provided by (used for) operating activities	5,716	(330)	12,817	18,203	(2,036)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of principal and interest on bonds and notes	-	(6,842)	-	(6,842)	(3,118)
Proceeds from issuance of bonds and notes	-	1,044	-	1,044	2,043
Collection of taxes	-	-	12,907	12,907	-
Transfers to other funds	-	-	(24,787)	(24,787)	(864)
Transfers from other funds	-	-	120	120	3,392
Cash payments for loans	-	-	-	-	(283)
Proceeds from interfund loans/advances	-	-	293	293	6,250
Payments of interfund loans/advances	(500)	-	(524)	(1,024)	(702)
Net cash provided by (used for) noncapital financing activities	(500)	(5,798)	(11,991)	(18,289)	6,718
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	(6)	(440)	(446)	(7,869)
Proceeds from sale of capital assets	-	-	-	-	1,080
Principal and interest payments on bonds and notes	-	-	(1,146)	(1,146)	(3,006)
Net cash used for capital and related financing activities	-	(6)	(1,586)	(1,592)	(9,795)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(312)	(497)	(809)	-
Proceeds from sales or maturities of investments	-	1,363	250	1,613	7,905
Proceeds from securities lending transactions	-	-	25	25	149
Interest and dividends on investments	12,127	550	1,259	13,936	1,207
Payment of securities lending costs	-	-	(23)	(23)	(132)
Collections of principal and interest on loans	-	17,451	-	17,451	-
Cash payments for loans	-	(17,121)	-	(17,121)	-
Arbitrage rebate tax	-	(248)	-	(248)	-
Net cash provided by (used for) investing activities	12,127	1,683	1,014	14,824	9,129
Net increase (decrease) in cash and cash equivalents	17,343	(4,451)	254	13,146	4,016
Cash and cash equivalents, July 1	176,418	12,251	20,825	209,504	14,839
Cash and cash equivalents, June 30	\$ 193,761	\$ 7,810	\$ 21,079	\$ 222,650	\$ 18,855

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTALS		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 18,068	\$ 230	\$ 26,134	\$ 44,432	\$	(22,376)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	2	1,055	1,057		10,596
Amortization	-	-	187	187		-
Taxes	-	-	(12,907)	(12,907)		-
Interest expense	-	2,872	134	3,006		342
Securities lending expense	-	-	22	22		132
Interest on investments	(12,200)	(576)	(688)	(13,464)		(1,126)
Securities lending income	-	-	(25)	(25)		(148)
Financing income	-	(2,893)	-	(2,893)		-
Federal indirect cost recoveries	-	-	-	-		4,217
Arbitrage rebate tax	-	47	-	47		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	-	-	(582)	(582)		(2,358)
Decr (incr) in due from other governments	-	-	-	-		13
Decr (incr) in due from other funds	(18)	-	66	48		1,632
Decr (incr) in due from component units	-	-	(75)	(75)		473
Decr (incr) in inventories	-	-	878	878		(102)
Decr (incr) in intangible assets	-	-	(182)	(182)		-
Decr (incr) in other assets	-	-	25	25		(82)
Incr (decr) in accounts payable	42	-	(378)	(336)		83
Incr (decr) in lottery prizes payable	-	-	(389)	(389)		-
Incr (decr) in due to other funds	(176)	(8)	(232)	(416)		(1,147)
Incr (decr) in due to component units	-	-	(10)	(10)		11
Incr (decr) in due to other governments	-	-	(51)	(51)		-
Incr (decr) in deferred revenue	-	-	(248)	(248)		53
Incr (decr) in property held in trust	-	-	55	55		35
Incr (decr) in compensated absences payable	-	(4)	125	121		1,118
Incr (decr) in estimated claims	-	-	(97)	(97)		6,598
Net cash provided by (used for) operating activities	\$ 5,716	\$ (330)	\$ 12,817	\$ 18,203	\$	(2,036)
Schedule of noncash transactions:						
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	\$	1,002
Total noncash transactions	\$ -	\$ -	\$ -	\$ -	\$	1,002

STATE OF MONTANA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2002
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 126,302	\$ 6,759	\$ 761,216	\$ 47,273
Receivables (net):				
Accounts receivable	20,538	-	-	-
Interest	24,499	68	473	57,361
Other receivables	-	-	-	645
Due from primary government	12,459	-	-	-
Due from other funds	2,274	311	-	-
Long-term loans/notes receivable	497	1,756	-	-
Total receivables	60,267	2,135	473	58,006
Investments at fair value:				
Equity in pooled investments (Note 3)	4,223,399	-	-	-
Other investments (Note 3)	920,764	-	-	-
Total investments	5,144,163	-	-	-
Securities lending collateral (Note 3)	254,736	-	-	-
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	142	-	-	-
Accumulated depreciation	(236)	-	-	-
Intangible assets	3,837	-	-	-
Total capital assets	3,936	-	-	-
Other assets	-	-	-	16,570
Total assets	5,589,404	8,894	761,689	121,849
LIABILITIES				
Accounts payable	26,335	11	473	16,848
Due to primary government	81	-	-	-
Due to other funds	310	75	-	-
Deferred revenue	20	-	-	-
Bonds/notes payable (net)	1,563	-	-	-
Property held in trust	-	3,241	-	103,049
Securities lending liability (Note 3)	254,736	-	-	-
Compensated absences payable	344	-	-	-
Other liabilities	-	-	-	1,952
Total liabilities	283,389	3,327	473	121,849
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 5,306,015	\$ 5,567	\$ 761,216	\$ -

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 135,494	\$ -	-
Employee	130,414	-	-
Other contributions	1,234	-	1,086,090
Net investment earnings:			
Investment earnings	(397,732)	236	21,722
Administrative investment expense	(7,397)	-	-
Securities lending income	7,183	1	394
Securities lending expense	(6,189)	(1)	(353)
Contracts/grants/donations	-	325	-
Charges for services	222	13	-
Total additions	(136,771)	574	1,107,853
DEDUCTIONS			
Benefits	287,250	8	1,114,877
Refunds	18,875	-	-
Administrative expenses:			
Personal services	1,898	67	-
Contractual services	3,678	84	-
Supplies/materials	112	9	-
Depreciation	14	-	-
Amortization	514	-	-
Utilities/rent	135	3	-
Communications	159	4	-
Travel	70	13	-
Repair/maintenance	22	-	-
Grants	-	12	-
Interest expense	43	-	-
Other operating expenses	268	-	-
Local assistance	13	-	-
Transfer to other funds	-	395	-
Total deductions	313,051	595	1,114,877
Change in net assets	(449,822)	(21)	(7,024)
Net assets - July 1 - as previously reported	5,756,333	5,617	768,240
Prior period adjustments	(496)	(29)	-
Net assets - July 1 - as restated	5,755,837	5,588	768,240
Net assets - June 30	\$ 5,306,015	\$ 5,567	\$ 761,216

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2002
(expressed in thousands)

	AUTHORITIES			
	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 4,938	\$ 1,808	\$ 22,025	\$ 5,406
Receivables (net)	16,014	190	11,690	2,431
Due from primary government	-	-	5	1
Due from component units	-	-	516	-
Inventories	-	-	-	-
Long-term loans/notes receivable	641,024	252	52	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	148,988	-	496,155	109,352
Securities lending collateral (Note 3)	-	-	57,563	16,600
Deferred charges	6,703	-	-	-
Restricted cash/cash equivalents	-	-	-	-
Capital assets (Note 4):				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings/improvements	-	-	-	-
Equipment	88	2	3,094	-
Infrastructure	-	-	-	-
Other capital assets	-	-	-	-
Construction in progress	-	-	-	-
Intangible assets	107	-	3,098	-
Less accumulated depreciation	(41)	(1)	(1,903)	-
Total capital assets	154	1	4,289	-
Other assets	175	1	1,673	-
Total assets	817,996	2,252	593,968	133,790
LIABILITIES				
Accounts payable	4,373	9	4,209	231
Due to primary government	34	1	795	3
Due to other governments	-	-	-	-
Due to component units	-	-	-	516
Deferred revenue	-	-	584	611
Lease/installment purchase payable (Note 10)	-	-	291	-
Bonds/notes payable (net) (Note 11)	689,923	-	-	-
Property held in trust	525	-	2,141	-
Securities lending liability (Note 3)	-	-	57,563	16,600
Compensated absences payable (Note 11)	81	8	1,270	63
Estimated insurance claims (Note 8)	-	-	346,400	90,901
Arbitrage rebate tax payable	1,503	-	-	-
Total liabilities	696,439	18	413,253	108,925
NET ASSETS				
Invested in capital assets, net of related debt	154	1	4,289	-
Restricted for:				
Funds held as permanent investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Housing authority	121,403	-	-	-
Other purposes	-	-	-	13,178
Unrestricted	-	2,233	176,426	11,687
Total net assets	\$ 121,557	\$ 2,234	\$ 180,715	\$ 24,865

The notes to the financial statements are an integral part of this statement.

STATE UNIVERSITY SYSTEM

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTALS
\$ 72,481	\$ 44,259	\$ 150,917
24,018	14,316	68,659
1,360	770	2,136
-	53	569
2,876	1,601	4,477
17,765	8,424	667,517
-	3,014	3,014
2,261	1,574	758,330
-	172	74,335
-	1,927	8,630
1,513	-	1,513
4,212	6,936	11,148
11,834	8,971	20,805
269,400	298,712	568,112
74,991	40,715	118,890
30,702	-	30,702
60,436	58,478	118,914
9,768	7,402	17,170
2,608	1,051	6,864
(234,575)	(191,954)	(428,474)
229,376	230,311	464,131
2,185	1,477	5,511
353,835	307,898	2,209,739
17,694	17,640	44,156
1,217	116	2,166
19,812	8,873	28,685
53	-	569
8,486	7,838	17,519
412	1,342	2,045
96,592	116,988	903,503
738	1,502	4,906
-	172	74,335
21,674	16,232	39,328
-	-	437,301
-	-	1,503
166,678	170,703	1,556,016
132,372	122,407	259,223
4,508	6,020	10,528
4,722	4,670	9,392
-	-	121,403
-	-	13,178
45,555	4,098	239,999
\$ 187,157	\$ 137,195	\$ 653,723

STATE OF MONTANA
 COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Authorities:				
Housing Authority	\$ 46,396	\$ 235	\$ 241	\$ -
Facility Finance Authority	231	256	-	-
State Compensation Insurance (New Fund)	122,285	93,259	-	-
State Compensation Insurance (Old Fund)	832	-	-	-
State University System:				
Montana State University	303,672	129,601	95,363	7,367
University of Montana	240,114	104,750	65,216	1,579
Total component units	<u>\$ 713,530</u>	<u>\$ 328,101</u>	<u>\$ 160,820</u>	<u>\$ 8,946</u>

General revenues:

- Other taxes
- Unrestricted investment earnings
- Payment from State of Montana
- Gain (loss) on sale of capital assets
- Miscellaneous
- Payment between component units
- Total general revenues
- Change in net assets
- Total net assets - July 1
- Prior period adjustments
- Total net assets - July 1 - as restated
- Total net assets - June 30

The notes to the financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTALS
\$ (45,920)	\$ 25	\$ (29,026)	\$ (832)	\$ (71,341)	\$ (68,569)	\$ (45,920) 25 (29,026) (832) (71,341) (68,569) (215,663)
(45,920)	25	(29,026)	(832)	(71,341)	(68,569)	(215,663)
-	-	2	28	-	-	30
52,421	70	33,241	10,295	2,724	1,185	99,936
500	-	-	-	80,965	57,909	139,374
-	-	(14)	-	93	-	79
4	-	123	-	-	7,164	7,291
-	-	7,408	(7,408)	-	-	-
52,925	70	40,760	2,915	83,782	66,258	246,710
7,005	95	11,734	2,083	12,441	(2,311)	31,047
114,552	2,139	168,981	22,782	176,191	139,468	624,113
-	-	-	-	(1,475)	38	(1,437)
114,552	2,139	168,981	22,782	174,716	139,506	622,676
\$ 121,557	\$ 2,234	\$ 180,715	\$ 24,865	\$ 187,157	\$ 137,195	\$ 653,723

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State of Montana
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the Legislative Auditor. The report is issued under separate cover and available at 301 South Park, Room 204, Helena, MT 59620-0545.

Facility Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued by the Legislative Auditor every two years. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the legislature. The fund is audited annually by the Legislative Auditor. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. Individual audit reports are issued by the Legislative Auditor annually. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2)

the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; (3) the Student Assistance Foundation of Montana, a private non-profit corporation; and (4) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 15). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The system is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement systems for the purpose of providing retirement, disability, death, and lump-sum payments to each system member. These legally separate entities include the Public Employees Defined Benefit, Public Employees Defined Contribution, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) is funded from employer and employee contributions, investment earnings and state contributions for city, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member contributions and investment earnings.

The board is a discretely presented component unit responsible for the ten separate public employee retirement systems and the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separately component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due. Significant intrafund transactions and balances have been eliminated.

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

Trust and Agency Funds – To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs. These include: (1) pension (and other employee benefit) trust funds; (2) agency funds, (3) investment trust funds, and (4) private purpose trust funds.

The State reports the following funds as major as defined under GASB 34:

Major Governmental Funds

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Proprietary Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

Amounts reported as program revenues include: (1) Charges to customers or applicants for goods, services, or privileges provided; (2) Operating grants and contributions; (3) Capital grants and contributions, including special assessments. Internally dedicated resources and all taxes are reported as general revenues.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, except the Housing Authority in the component unit proprietary funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurers pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool (STIP), undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, cash held by trustees, and cash invested in STIP (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 2002, was \$13.4 million.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources. An exception is the Federal Special Revenue Fund food stamp inventory balance, which is offset by deferred revenue.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the balance sheet or statement of net assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private purpose trust funds, investment trust funds, pension trust funds, higher education units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the balance sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets. The State is only reporting the current year highway system infrastructure construction/acquisitions. Other than land, all other highway related infrastructure will be added prior to the end of the phase-in period allowed under GASB 34. Other infrastructure has been capitalized and depreciated without regard to the phase-in period.

Capital assets in proprietary, private purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

During fiscal year 2002, the capitalization limit for buildings and building/land improvements was raised to \$25,000. The capitalization threshold for infrastructure was set at \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets remains at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

K. Deferred Revenue

Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

L. Long-Term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have

been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Capital Leases

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease, as defined, are recorded at inception as expenditures and other financing sources in governmental fund types and as assets and liabilities at the present value of the future minimum lease payments, using the interest rates stated in the leases.

N. Bond Discounts/Premiums/Issuance Costs

In the governmental funds as presented in the fund financial statements, bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as an other financing source, net of any premium or discount. Issuance costs are reported as debt service expenditures whether or not they are withheld from the net bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2001, was 2,564.5 hours. For fiscal year 2002, 992 hours were contributed to the sick leave pool and 2,081.5 hours were withdrawn leaving a balance of 1,475 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

P. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as Advances From Other Funds.

Q. Fund Equity

In the fund financial statements, reservations represent those portions of fund equity or net assets not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. In fiscal year 2002, the General Fund designated fund balance represents the 2001 Legislature's desire to set aside \$3.2 million for contingencies related to cost increases in electricity and natural gas expenditures significantly greater than those appropriated or to support litigation to secure affordable electricity and natural gas. The State Special Revenue Fund designated fund balance represents management's desire to improve the Smith River Corridor. The Debt Service Funds designated fund balances represent management's desire to maintain fund balance in relation to bonds payable.

R. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded as receivables (net of uncollectibles).

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

S. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the general, state special revenue, and nonmajor funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Capital Projects Fund	Totals
Video Gaming	\$ 43,645	\$ -	\$ -	\$ 43,645
Insurance Premium	43,930	-	-	43,930
Inheritance	13,769	-	-	13,769
University System Millage	920	11,451	-	12,371
Cigarette/Tobacco	10,083	1,504	1,718	13,305
Accommodations	39	11,873	-	11,912
Telephone License	19,826	-	-	19,826
Alcoholic Beverage	4,010	1,428	-	5,438
Electrical Energy	7,420	-	-	7,420
Public Contractor	3,537	-	-	3,537
Livestock	-	2,385	-	2,385
Public Service Commission	-	2,250	-	2,250
Freight Line	1,490	-	-	1,490
Fire Protection	2,367	2,159	-	4,526
Agriculture Sales	-	1,291	-	1,291
Consumer Counsel	-	829	-	829
Miscellaneous	164	165	-	329
Total Other Taxes	\$151,200	\$35,335	\$1,718	\$188,253

NOTE 2 — OTHER ACCOUNTING ISSUES

The State made changes in its accounting practices to report in conformance with the new governmental reporting model as defined by GASB statements 34 through 38. All changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods and changes in accounting principle.

NOTE 3 — CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following Balance Sheet classifications (in thousands):

Cash/Cash Equivalents	\$1,753,166
Equity in Pooled Investments	\$5,394,139
Investments	\$2,013,381

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer pooled cash account, there is a short-term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments where the securities are held by the counter party's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities, in addition to other long-term investment securities, to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91-day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero-coupon bonds and preferred stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock), and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued and traded at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero-coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market

risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

As of June 30, 2002, investments in Enron and Burlington presented legal and higher credit risk to the State.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2002, the State's agent loaned, on behalf of the State, certain securities held by the agent and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2002, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) **Cash Deposits** – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposits (in thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	\$ 1,621	\$ 1,621	Various
	Collateral Held by State/State's Agent	9,996	9,996	Various
2		489	489	Various
3		317	317	Various
Uncategorized:				
	Undeposited Cash	3,552		
	Cash in U.S. Treasury	193,603		
	Less Outstanding Warrants	(52,682)		
	Total Cash Deposits	\$156,896		

As of June 30, 2002, the carrying amount of deposits for component units was \$59,114,091, and the bank balance was \$57,286,461. Of the bank balance, \$57,286,461 was fully insured or collateralized with securities held by the component units or their agents in the unit's name, and \$94,713 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) **Cash Equivalents** – consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the component unit proprietary fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and cash invested in STIP. Cash equivalents may be under the control of the Board of Investments (the board) or other agencies, as allowed by law.

Table 2 - Cash Equivalents (in thousands)

	Risk Category 1					
	Securities Not on Loan	On Loan for* Securities Collateral	Not* Categorized	Carrying Amount	Fair Value	Fund
Commercial Paper	\$ 9,995	\$ -	\$ -	\$ 9,995	\$ 9,995	Various
Asset-backed Securities	912,374	-	-	912,374	912,371	Various
Government Securities	104,135	-	-	104,135	105,571	Various
Repurchase Agreements	59,000	-	-	59,000	59,000	Various
Variable-rate	491,045	-	-	491,045	491,222	Various
Direct Investments:						
Money Markets				19,721	19,721	Various
Guaranteed Investment Contracts				-	-	Various
Total Cash Equivalents				\$1,596,270	\$1,597,880	
Securities Lending Collateral						
Investment Pool		\$ -	\$ -	\$ -		

* At June 30, 2002, no securities were loaned for securities or cash collateral under a security lending agreement with the State's agent.

As of June 30, 2002, local governments invested \$761,215,876 in the STIP.

As of June 30, 2002, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$273,290,129.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Common Stock Pool (MTCPP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, higher education units, and specific trusts established within the State Special Revenue Fund. Purchases are subject to statutory restrictions for quality and size of holdings.

Table 3 - Equity In Pooled Investments (in thousands)

	Risk Category 1		Not Categorized*	Carrying Amount	Fair Value
	Securities Not on Loan	On Loan for Securities Collateral*			
MTCPP:					
Corporate Stocks	\$1,802,361	\$ -	\$ 20,924	\$1,823,285	\$1,877,185
SPIFF	5,982	-	-	5,982	5,869
TFBP:					
Corporate Asset-backed	2,714	-	-	2,714	2,824
Corporate Stocks	689,693	-	9,229	698,922	700,892
US Govt. Mortgage-backed	52,444	-	-	52,444	53,775
US Govt. Direct/Indirect	176,648	18,002	78,776	273,426	298,283
Yankee Bonds	74,095	-	-	74,095	74,991
State and Local Government	17,551	-	-	17,551	17,553
RFBP:					
Corporate Asset-backed	1,357	-	-	1,357	1,412
Corporate Stocks	1,094,407	-	8,964	1,103,371	1,109,175
US Govt. Mortgage-backed	60,870	-	-	60,870	63,326
US Govt. Direct/Indirect	251,439	-	140,150	391,589	433,208
Yankee Bonds	88,899	-	5	88,904	91,125
State and Local Government	1,130	-	-	1,130	1,130
MTIP:					
BOI Internal International	116,630	-	28,137	144,767	143,563
Pyford International	81,721	-	15,783	97,504	89,775
Schroder Capital Management	106,946	68	9,009	116,023	112,533
SG Pacific Asset Management	74,349	-	10,231	84,580	83,734
MPEP:					
Private Equities	160,649	-	-	160,649	175,506
State Street SPIFF	23,461	-	-	23,461	21,846
Total Pooled Investments	4,883,346	18,070	321,208	5,222,624	5,357,705
Other Pool Assets (Net)	-	-	-	36,434	36,434
Total - Equity in Pooled Investments	\$4,883,346	\$18,070	\$321,208	\$5,259,058	\$5,394,139
Securities Lending Collateral					
Investment Pool			\$358,146	\$ 358,146	\$ 358,146

* At June 30, 2002, these underlying securities, with fair values of \$18,816,095 and \$343,856,304, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2002, component units of the State of Montana had equity in pooled investments with a book value of \$3,195,123,554 and a fair value of \$4,226,413,018.

D. Investments

Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 82% of those investments; the Board of

Housing, 7%; and the Department of Administration's Public Employees Retirement Board, 10% for the State's Deferred Compensation Plan. Additionally, the Department of Natural Resources and Conservation manages 1% of total investments for bond-related activities.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented in the Balance Sheet at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

The Board of Investments continued to invest in leveraged buyouts in fiscal year 2002. The board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies (KKR), amounts to \$125 million, as of June 30, 2002. The KKR leveraged buyout invested balance for the Montana Private Equity Pool (MPEP) amount to \$90,962,263 on June 30, 2002.

On May 18, 2001, the board approved that \$50 million be invested with Lexington Partners LP Fund V, a secondary leveraged buyout market fund. As of June 30, 2002, the MPEP invested balance totaled \$4,896,324.

On January 19, 2001, the board approved a staff recommendation to commit \$25 million in the leveraged buyout fund of Madison Dearborn Partners IV. As of June 30, 2002, the MPEP invested balance totaled \$858,233.

On September 22, 2000, the board approved a staff recommendation to commit \$25 million in the leveraged buyout fund of Welsh Carson Anderson & Stowe IX. As of June 30, 2002, the MPEP invested balance totaled \$5,810,293.

As of June 30, 2002, the board has a \$195 million commitment for venture capital investments administered by Adams Street Partners, formerly Brinson Partners. The June 30, 2002, venture capital invested balance totaled \$58,121,432 for MPEP.

The board committed to invest, on behalf of the retirement funds, in the S&P 500 Equity Index Fund A, managed by Barclays Global Investors. As of June 30, 2002, the pension funds had an invested balance of \$465 million.

Upon receiving electorate approval, the board began investing for the State Fund in January 2001, in the S&P 500 Equity Index Fund B, managed by Barclays Global Investors. As of June 30, 2002, State Fund's invested balance totaled \$74 million.

Table 4 – Investments (Risk Categories) (in thousands)

	Risk Category 1				
	Securities	Risk	Not	Carrying	Fair
	Not on Loan	Category 2	Categorized*	Amount	Value
Primary Government					
Corporate Bonds	\$ 30,964	\$ -	\$ 11,169	\$ 42,133	\$ 43,631
Corporate Asset-backed	10,238	-	-	10,238	10,517
Government Securities	78,393	-	-	78,393	81,313
Government Mortgage-backed	12,315	-	-	12,315	12,718
Total	\$131,910	\$ -	\$ 11,169	\$ 143,079	\$ 148,179
Component Units					
Corporate Bonds	\$239,217	\$ -	\$ -	\$ 239,217	\$ 248,196
Corporate Asset-backed	18,442	-	-	18,442	18,697
Government Securities	78,436	44,736	89,326	212,498	219,862
Government Mortgage-backed	88,835	-	-	88,835	90,606
International Bonds	10,112	-	839	10,951	10,934
Savings & Loans	254	-	-	254	254
Repurchase Agreement	-	104,112	-	104,112	104,246
Foundations	-	-	1,281	1,281	1,139
Other Investments	-	-	216	216	215
Total	435,296	148,848	91,662	675,806	694,149
Total	\$567,206	\$148,848	102,831	\$ 818,885	\$ 842,328

Direct Investments:

Primary Government

Commercial Loans	186,108	186,108
Total	\$ 186,108	\$ 186,108

Component units

Real Estate	\$ 13,066	\$ 13,600
Mortgages	324,038	330,438
Alternative Equities	539,000	446,706
Deferred Compensation	205,279	194,201
Total	1,081,383	984,945
Total Investments	\$2,086,376	\$2,013,381

Securities Lending Collateral
Investment Pool

\$109,960 \$ 109,960 \$ 109,960

* At June 30, 2002, the underlying securities, with fair values of \$106,533,000, were loaned for cash collateral under a securities lending agreement with the State's agent.

NOTE 4 — CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2002, are reflected in the following table; intrafund transfers of capital assets have not been eliminated (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 71,493	\$196,510	\$ (1,773)	\$266,230
Construction Work in Progress	31,799	144,089	(5,004)	170,884
Capitalized Collections	53,989	10,034	(342)	63,681
Total Capital Assets, Not Being Depreciated	157,281	350,633	(7,119)	500,795
Capital Assets, Being Depreciated				
Infrastructure	95,510	158,597	(431)	253,676
Land Improvements	-	9,661	-	9,661
Buildings	300,158	16,952	(19,226)	297,884
Building Improvements	125,004	783	(118,585)	7,202
Equipment	216,855	48,381	(35,395)	229,841
Other	11,512	249	(8,803)	2,958
Total Capital Assets, Being Depreciated	749,039	234,623	(182,440)	801,222
Less Accumulated Depreciation for:				
Infrastructure	(20,835)	(2,308)	431	(22,712)
Land Improvements	-	(205)	-	(205)
Buildings	(131,617)	(8,540)	7,917	(132,240)
Building Improvements	(8,465)	(224)	2,777	(5,912)
Equipment	(130,559)	(18,929)	11,927	(137,561)
Other	(1,956)	(209)	10	(2,155)
Total Accumulated Depreciation	(293,432)	(30,415)	23,062	(300,785)
Total Capital Assets, Being Depreciated, Net	455,607	204,208	(159,378)	500,437
Intangible Assets	466	38,019	(971)	37,514
Governmental Activity Capital Assets, Net	\$613,354	\$592,860	\$(167,468)	\$1,038,746

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction Work in Progress	15	56	-	71
Total Capital Assets, Not Being Depreciated	815	56	-	871
Capital Assets, Being Depreciated				
Infrastructure	-	884	-	884
Land Improvements	-	222	-	222
Buildings	5,160	3,485	(366)	8,279
Building Improvements	689	8	(12)	685
Equipment	7,388	12,384	(10,323)	9,449
Other	1,154	-	-	1,154
Total Capital Assets, Being Depreciated	14,391	16,983	(10,701)	20,673
Less Accumulated Depreciation for:				
Infrastructure	-	(4)	-	(4)
Land Improvements	-	-	-	-
Buildings	(2,585)	(436)	290	(2,731)
Building Improvements	(424)	(35)	12	(447)
Equipment	(3,353)	(2,794)	1,967	(4,180)
Other	(995)	(1)	-	(996)
Total Accumulated Depreciation	(7,357)	(3,270)	2,269	(8,358)
Total Capital Assets, Being Depreciated, Net	7,034	13,713	(8,432)	12,315
Intangible Assets	1,735	335	(598)	1,472
Business-type Activity Capital Assets, Net	\$ 9,584	\$ 14,104	\$ (9,030)	\$ 14,658

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General Government	\$ 899
Public Safety/Corrections	4,640
Transportation (including depreciation of the highway system maintained by the State).	3,135
Health/Social Services	3,807
Education/Cultural	1,177
Resource Development/Recreation (including depreciation of the State's dams).	3,184
Economic Development/Assistance	609
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	11,188
Total Depreciation Expense – Governmental Activities	\$28,639

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the Other caption for this schedule:

Discretely Presented Component Units

	Montana State University	University of Montana	Other	Totals
Capital Assets, Not Being Depreciated				
Land	\$ 4,212	\$ 6,936	\$ -	\$ 11,148
Construction Work in Progress	9,768	7,402	-	17,170
Capitalized Collections	7,767	14,395	-	22,162
Livestock for Educational Purposes	2,371	-	-	2,371
Total Capital Assets, Not Being Depreciated	24,118	28,733	-	52,851
Capital Assets, Being Depreciated				
Infrastructure	30,702	-	-	30,702
Land Improvements	11,834	8,971	-	20,805
Buildings	165,795	184,376	-	350,171
Building Improvements	103,605	114,336	-	217,941
Equipment	74,991	40,715	3,184	118,890
Other	50,298	44,083	-	94,381
Total Capital Assets, Being Depreciated	437,225	392,481	3,184	832,890
Less Accumulated Depreciation	(234,575)	(191,954)	(1,945)	(428,474)
Total Capital Assets, Being Depreciated, Net	202,650	200,527	1,239	404,416
Intangible Assets	2,608	1,051	3,205	6,864
Discretely Presented Component Units				
- Total Capital Assets, Net	\$229,376	\$230,311	\$4,444	\$464,131

NOTE 5 — RETIREMENT SYSTEMS

Defined Contribution Plans

ORP - Optional Retirement Program – Effective January 1, 1988, through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. As of June 30, 2002, 2,130 employees were members of the ORP. Required employee contributions were 7.044% of salary; required employer contributions were 4.956% of salary, for a total of 12% of salary contributed to the ORP.

TIAA-CREF*(in thousands)*

Covered Payroll	\$ 98,750
Total Payroll	216,045
Employer Contributions	\$ 4,894
Percent of Covered Payroll	4.956%
Employee Contributions	\$ 6,960
Percent of Covered Payroll	7.048%

DCRP - Public Employees Retirement System – This plan is a multiple-employer, cost-sharing plan created by the 1999 Legislature and is governed by Title 19, chapters 2 & 3 of the MCA. The PERS-DCRP will be available to all active PERS members effective July 1, 2002. The plan will begin receiving contributions or revenues after the July 1, 2002, implementation date.

Eligible PERS members who are active on July 1, 2002, will have a 12-month window during which they may choose to join the PERS-DCRP or remain in the current PERS-DBRP. Members may not be active members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions in the selected investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

457 - Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. As of June 30, 2002, the net assets of the 457 plan were \$196,419,000. All employees of the State, Montana University System, and contracting political subdivision are eligible to participate. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Under the plan, eligible employees elect to defer a portion of their salary until future time periods. The compensation deferred is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRS-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board, a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, and VFCA.

The financial statements for PERS include activity for a defined benefit and a defined contribution retirement plan and an education fund. The defined contribution plan will be available to eligible PERS members starting July 1, 2002. The PERS received a long-term loan for \$1,498,000 from the Montana Department of Administration to fund the defined contribution plan start-up and implementation costs. The education fund was established to inform the PERS members about the plan choices. The education program was funded by 0.1% of the PERS-covered payroll for fiscal year 2002.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERS, SRS, MPORS, HPORS, FURS, GWPORS, JRS, and TRS by employer type at June 30, 2002, follows:

Retirement System

	PERS	SRS	MPORS	HPORS	FURS	GWPORS	JRS	457	TRS
Employers									
State Agencies	34	1		1	1	5	1	34	8
Counties	55	55							
Cities/Towns	92		22		15				
Colleges/Universities	5					3		6	8
School Districts	241								378
Other	88							1	
Total	515	56	22	1	16	8	1	41	394

B. Plan Descriptions

The State contributes to and/or administers ten plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1999 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a maximum benefit increase of 3% each January, beginning January 2002, inclusive of all other adjustments to the member's benefit, if the recipient has been receiving a retirement benefit for at least 12 months. In addition, MPORS members hired prior to July 1, 1997, and retirees of this system, were required to make an election by December 31, 1997, for GABA coverage. For members of the JRS, HPORS, and FURS systems, the election for GABA coverage needed to be made by November 30, 2001.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997, and members electing GABA coverage. The employer contribution rate is 36.33% of active officer's salaries. For members, there is no minimum age, but minimum service is 20 years for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the highest average compensation. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which insure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump-sum payment distributed in September. This lump-sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in fiscal year 2002 was \$2,231. This enhancement is limited to non-GABA members.

JRS – Judges Retirement System – This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries while the State contributes 25.81% of active judges' salaries. Rights are vested after five years of membership service. For benefit eligibility, minimum service is five years, and the minimum age is 60. The monthly retirement benefit formula is 3 1/3% per year of the member's highest average compensation for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15 years. For non-GABA members, the percentages are based on the member's current salary, instead of the highest average compensation.

(2) State as an Employer Contributor to Cost-Sharing Multiple-Employer Systems

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions were 6.9% of covered compensation for fiscal year 2002. Each state agency and university system employer contributed 6.9% of PERS-covered payroll during fiscal year 2002. Participating local governments and school district employers contributed 6.8% of PERS-covered payroll. The State contributed 0.1% for local governments and school district employers from the State General Fund. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service, regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 2% times the number of years of service times the highest average compensation times any early retirement reduction, if necessary, or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions plus interest earned. Members' rights are vested after five years of membership service.

TRS – Teachers Retirement System – This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2033, for the amount that would not be paid for by contributions of university system members. The fiscal year 2002 contribution percentage of the total compensation of employees participating in the ORP program was 4.04% and the contribution was \$3.96 million. The unfunded actuarial accrued liability of \$495.3 million is included in the Schedules of Funding Progress.

SRS – Sheriffs Retirement System – This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs and State Department of Justice criminal investigators hired after July 1, 1993. The member contribution is 9.245% of salary; the employer contribution is 9.535% of salary. Minimum years of service for normal service retirement eligibility is 20. The service retirement benefit is calculated at 2.5% of the highest average compensation for each year of membership service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of membership service.

GWPORS – Game Wardens & Peace Officers Retirement System – This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 10.56% of salary while the State contributes 9.0% of covered active employee salaries. For benefit eligibility, minimum age is 50 and minimum years of service is 20. If subject to involuntary termination, a member may retire with five years of service at age 55. The yearly retirement benefit formula is 2.5% times the number of years of service times the highest average compensation. Rights are vested after five years of membership service.

Based on current actuarial assumptions, the current normal cost is more than the statutory contribution rate; therefore, the system is not actuarially sound. Enacted legislation opened the GWPORS to all state peace officers. The active membership increased from 494 in fiscal year 2000 to 609 in fiscal year 2002. The increase in membership causes the need to reevaluate the actuarial assumptions. Changes to the actuarial assumptions may change the normal cost of the plan.

(3) State as a Nonemployer Contributor to Cost-Sharing Multiple-Employer Systems

MPORS – Municipal Police Officers Retirement System – The system, established in 1974 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation. The member contribution is 5.8% of salary for members employed prior to July 1, 1975; 7% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 8.5% of salary for members employed after June 30, 1979, and prior to July 1, 1997; and 9% for members hired on or after July 1, 1997, and members electing GABA. City contributions are 14.41% of active police officer salaries. The State contributes 29.37% of active police officer salaries. The State's contribution is funded from the General Fund. Rights are vested after five years of membership service. Minimum years of service are five for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

FURS – Firefighters Unified Retirement System – This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan. It is a cost-sharing defined benefit plan with a special funding situation. The member

contribution is 9.5% of compensation for members hired prior to July 1, 1997; and 10.7% for new hires after June 30, 1997, and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The state contribution is 32.61% of total annual compensation for all firefighters and is paid out of the General Fund. Minimum eligibility is 20 years regardless of age. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation, plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% per year of service. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. Rights are vested after five years of membership service.

(4) State as a Nonemployer Contributor

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA is a plan with a special funding situation. The state contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Eligibility requirements are 55 years of age and 20 years qualified service for a full benefit, or 60 years of age and a minimum of 10 years qualified service for a partial benefit.

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees Retirement System has outstanding contributions for early retirement programs:

The 1993 Montana Legislature enacted House Bill 517 - Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993, and December 31, 1993. Local government employers participated, through election, on or before June 1, 1993. The employer purchased, on the members behalf, one year of additional service for each five years of qualified service ("1 for 5"), up to a maximum of three years, for any retirement eligible member who terminated employment during the defined time period. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (Section 19-2-706, MCA) allowing state employees, eligible for a service retirement, whose positions have been eliminated, to have their employer purchase up to three years of "1 for 5" additional service. As of June 30, 2002, 247 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2002 totaled \$144,782. June 30, 2002, outstanding balances were \$342,095.

F. Actuarial Data

Actuarial valuations are performed every two years. Milliman USA prepared the July 2002 actuarial reports for the retirement systems, including TRS. Employee Benefit Resources, LLP, of Helena, MT, prepared the July 1, 1998, actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA, performed the

actuarial valuation for TRS for July 1, 1998, and July 1, 2000. Milliman & Robertson, of Portland, OR, prepared the July 1, 2000, actuarial reports for the retirement systems, excluding TRS.

G. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems

	HPORS	JRS
Annual Pension Cost	\$3,047	\$1,032
Contributions		
Employer	\$2,770	\$1,032
Employee	693	280
License and Registration Fees	309	
Actuarial Valuation Date	7/01/02	7/01/02
Actuarial Cost Method	Entry age	Entry age
Amortization Method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining Amortization Period	8.7 years	30 years
Asset Valuation Method	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:		
Investment Rate of Return	8.0%	8.0%
Projected Salary Increases (includes inflation factor)	4.5%	4.5%
Merit	0%-7.3%	None
Postretirement Benefit Increases	None	None

Single Employer Systems

Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Obligation
HPORS			
06/30/00	2,805	99.5%	NONE
06/30/01	3,006	101.6%	NONE
06/30/02	3,047	101.3%	NONE
JRS			
06/30/00	899	100.0%	NONE
06/30/01	944	100.0%	NONE
06/30/02	1,032	100.0%	NONE

Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed
PERS		
06/30/00	49,695	98.7%
06/30/01	52,843	100.7%
06/30/02	55,369	100.5%
MPORS		
06/30/00	8,866	100.6%
06/30/01	9,149	100.1%
06/30/02	9,732	101.1%
FURS		
06/30/00	7,773	97.8%
06/30/01	7,854	98.6%
06/30/02	8,432	98.1%
SRS		
06/30/00	2,056	106.8%
06/30/01	2,159	103.1%
06/30/02	2,338	102.1%
GWPORS		
06/30/00	1,069	102.9%
06/30/01	1,339	101.9%
06/30/02	1,544	103.3%
TRS		
06/30/00	48,376	100.0%
06/30/01	51,524	100.0%
06/30/02	51,519	100.0%

H. Schedules of Funding Progress

Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/98	59,531	78,722	19,191	75.62%	6,201	309.48%
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
07/01/02	81,734	94,850	13,116	86.17%	7,536	174.04%
JRS						
07/01/98	31,646	29,017	(2,629)	109.06%	3,144	(83.62)%
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%
07/01/02	44,963	30,882	(14,081)	145.60%	4,000	(352.03)%

Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/98*	2,128,065	2,300,328	172,263	92.51%	660,579	26.08%
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
07/01/02	3,076,781	3,077,764	983	99.97%	808,747	0.12%
MPORS						
07/01/98	94,908	173,642	78,734	54.66%	17,873	440.52%
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
07/01/02	143,516	226,827	83,311	63.27%	22,229	374.79%
FURS						
07/01/98	89,988	169,006	79,018	53.25%	15,104	523.15%
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
07/01/02	136,392	197,946	61,554	68.90%	17,953	342.86%
SRS						
07/01/98	92,160	81,077	(11,083)	113.67%	20,127	(55.06)%
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
07/01/02	138,590	121,625	(16,965)	113.95%	24,521	(69.19)%
GWPORS						
07/01/98	23,190	22,412	(778)	103.47%	7,839	(9.92)%
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
07/01/02	38,730	39,109	379	99.03%	17,151	2.21%
TRS						
07/01/98*	1,809,037	2,342,690	533,653	77.2%	529,795	100.7%
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%
07/01/02	2,484,800	2,980,100	495,300	83.4%	563,200	87.9%

* PERS July 1, 1998, results adjusted by actuary.

** TRS July 1, 1998, results adjusted for 1.5% guaranteed annual benefit adjustment and \$500 minimum benefit for legislation which passed in April 1999 and the new salary scale adopted in November 1998.

Nonemployment Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/98	13,941	18,354	4,413	75.96%	N/A	N/A
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A
07/01/02	19,254	26,808	7,554	71.82%	N/A	N/A

NOTE 6 — OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2002, 89 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 5). Administratively established retiree medical premiums vary between \$168 and \$455 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$28.60 and \$46.60 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2002, 3,165 retirees were covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$15,910,898 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$11,932,870 leaving \$3,978,028 of claims paid in excess of premium revenue received by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$183 and \$506 per month and are revised annually. Medicare-eligible plan members are assumed to be insured by Medicare. After an annual \$500 deductible for non-Medicare-eligible retirees, the MUS plan reimburses 75% of the first \$8,000 in medical claims and 100% thereafter. After a \$350 deductible for Medicare-eligible retirees, the plan reimburses 75% for the first \$4,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2002, 1,390 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2002, estimated expenditures of \$5,665,612 were recognized for postemployment health care benefits. Of this amount, \$4,251,665 was paid by retirees through premiums, and the balance of \$1,413,947 was paid by the MUS.

NOTE 7 — DEFERRED COMPENSATION PLAN

The State of Montana Deferred Compensation Program is administered by the PERB. The Deferred Compensation plan is a voluntary, tax-deferred retirement plan designed to supplement State Service Retirement, Social Security, and other retirement plans and savings. The State of Montana has offered this plan since 1976. Internal Revenue Service Code (Section 457) and MCA (Title 19, chapter 50) govern the plan. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

All employees of the State, including the Montana University System and contracting agencies, are eligible to participate. The compensation deferred is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. Participating employees are able to direct their deferrals into two primary investment options: (1) a "fixed" or stable value option which guarantees both principal (the payroll deferrals) and a quarterly rate of earnings; and (2) a "variable" option which currently consists of 22 mutual funds and five lifestyle/profile funds. Participants are allowed to participate in both options and, under the variable option, as many of the offered funds as they choose. As of June 30, 2002, the net assets of the Plan were \$196,419,000.

NOTE 8 — RISK MANAGEMENT

There are two primary government public entity risk pools and two component unit public entity risk pools that are reported within the enterprise fund type: Primary government pools include Hail Insurance and Subsequent Injury Funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are two primary government other than public entity risk pools reported within the internal service fund type: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. There is one primary government other than public entity risk pool reported within the enterprise fund type: the Montana University System (MUS) Group Benefits Plan. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) **Hail Insurance** – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 882 policies during the 2002 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$42,330 based on estimated claims through June 30, 2002. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) **Subsequent Injury** – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,051 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2002, the amount of this liability was estimated to be \$2,100,481.

(3) **State Compensation Insurance (New Fund)** – Liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 24,961 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2002, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2002, \$346,400,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs in fiscal years ended June 30, 2002 and 2001, were \$878,000 and \$389,000, respectively. For the fiscal years ended June 30, 2002 and 2001, \$389,000 and \$171,000 of acquisition costs were amortized, respectively.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(4) **State Compensation Insurance (Old Fund)** – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments was accumulated through an Old Fund Liability Tax (OFLT) imposed on employer payroll (0.5%), employee wages (0.2%), and sole proprietor and subchapter S shareholder distributive income. In 1999, the 56th Legislature determined that the fund was adequately funded and discontinued the OFLT. This fund does not compute a premium deficiency.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2002, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2002, \$128,902,000 of unpaid claims and claim adjustment expenses were reported at a net present value of \$90,900,000, discounted at a 5.5% rate. Prior to 1999, the unpaid claims and unpaid claim adjustment expenses were presented at face value. Total Old Fund surplus as of June 30, 2002, was \$24,866,000 compared to \$22,782,000 as of June 30, 2001.

(5) **Changes in Claims Liabilities For the Past Two Years** – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

<u>Primary Government</u>	<u>Hail Insurance</u>		<u>Subsequent Injury</u>	
	2002	2001	2002	2001
Unpaid claims and claim adjustment expenses at beginning of year	\$ 520	\$ 457	\$2,719	\$2,279
Incurred claims and claim adjustment expenses:				
provision for insured events of the current year	2,076	2,964	-	-
Increase (Decrease) in provision for Insured events of prior years	(395)	396	(352)	379
Total incurred claims and claim adjustment expenses	1,681	3,360	(352)	379
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(2,034)	(2,841)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(124)	(456)	(267)	61
Total payment	(2,158)	(3,297)	(267)	61
Total unpaid claims and claim adjust. exp. at end of the year	\$ 43	\$ 520	\$2,100	\$2,719

<u>Component Units</u>	<u>State Compensation Insurance (New Fund)</u>		<u>State Compensation Insurance (Old Fund)</u>	
	2002	2001	2002	2001
Unpaid claims and claim adjustments expenses at beginning of year	\$325,900	\$314,900	\$148,476	\$167,915
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	84,370	75,465	-	-
Increase (Decrease) in provision for insured events of prior years	5,361	(1,667)	(6,690)	(5,503)
Total incurred claims and claim adjustment expenses	89,731	73,798	(6,690)	(5,503)
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(16,693)	(14,140)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(52,538)	(48,658)	(12,884)	(13,936)
Total payments	(69,231)	(62,798)	(12,884)	(13,936)
Total unpaid claims and claim adjust. exp. at end of the year	\$346,400	\$325,900	\$128,902	\$148,476

(6) **Risk Management Trend Information** – The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

State Compensation Insurance (New Fund)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Premiums and investment revenue										
Earned	\$214,793	\$231,793	\$190,685	\$134,771	\$102,233	\$87,305	\$78,482	\$86,786	\$109,248	\$105,483
Ceded	289	318	269	519	348	303	260	855	2,952	(465)
Net Earned	\$214,504	\$231,475	\$190,416	\$134,252	\$101,885	\$87,002	\$78,222	\$85,931	\$106,296	\$105,948
2. Unallocated expenses including overhead	\$ 7,758	\$ 8,890	\$ 15,049	\$ 18,013	\$ 13,136	\$15,061	\$19,745	\$23,189	\$ 28,097	\$ 32,679
3. Estimated losses and expenses end of accident year										
Incurred	\$186,480	\$199,890	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	\$186,480	\$199,890	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560
4. Net paid (cumulative) as of:										
End of policy year	\$ 18,347	\$ 18,693	\$ 18,137	\$ 15,818	\$ 12,589	\$12,943	\$13,723	\$13,177	\$ 14,140	\$ 16,693
One year later	46,343	45,947	40,473	32,890	28,451	28,222	29,976	29,218	32,888	
Two years later	62,717	60,971	52,073	42,361	35,706	35,753	39,298	37,555		
Three years later	71,666	67,512	58,722	47,283	39,860	41,004	45,748			
Four years later	76,280	72,212	62,419	50,267	43,105	44,478				
Five years later	80,165	75,799	65,919	52,791	46,478					
Six years later	82,981	78,306	68,541	54,962						
Seven years later	85,357	80,861	70,816							
Eight years later	88,080	83,150								
Nine years later	90,094									
5. Re-estimated ceded losses and expenses	\$ 272	\$ -	\$ -	\$ -	\$ 5,372	\$ 106	\$ 750	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	\$186,480	\$199,890	\$164,628	\$ 95,067	\$ 76,067	\$64,983	\$63,807	\$65,957	\$ 68,267	\$ 81,560
One year later	184,030	184,920	124,123	88,923	67,235	64,308	64,348	66,421	71,094	
Two years later	167,052	135,472	107,074	77,286	59,054	60,467	66,660	66,662		
Three years later	133,017	116,756	95,456	73,864	60,811	61,989	69,345			
Four years later	120,583	107,656	94,517	74,022	64,439	64,944				
Five years later	111,208	105,052	92,231	73,197	59,079					
Six years later	109,415	106,039	91,771	74,329						
Seven years later	111,638	105,668	92,637							
Eight years later	111,084	105,606								
Nine years later	110,921									
7. Increase (decrease) in estimated net incurred losses and expenses net end of policy year	\$ (75,559)	\$ (94,284)	\$ (71,991)	\$ (20,738)	\$ (16,988)	\$ (39)	\$ 4,700	\$ 705	\$ 2,827	\$ -

B. Other Than Public Entity Risk Pools

(1) **Group Employee Comprehensive Medical and Dental Plan** – With the exception of vision care services, this plan is fully self-insured, with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits and their dependents; vision care services are insured by the Vision Service Plan. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Division, and self-payments and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2002, estimates for claims liabilities, which include incurred, but not reported, claims were \$9,163,948 based on a formula provided by Buck Consultants, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) **Montana University System (MUS) Group Benefits Plan** – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Student Assistance Foundation (SAF), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, with three exceptions. The three insured products are HMOs administered by New West Health Services serving some employees and dependents in Missoula, Helena, Havre, and Billings; PEAK Health Plan serving some employees and dependents in Butte; and a voluntary vision plan administered by VSP serving employees, retirees, and their dependents. Blue Cross/Blue Shield is the claims administrator for the self-insured plan. Managed Care Montana (APS) has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Buck Consultants and estimated to be \$2,982,494 as of June 30, 2002, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) **Property & Casualty Insurance Plans** – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$150,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.2 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage (each in the amount of \$100 million) with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1991, through June 30, 2002, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2002, estimated claims liability of \$29,848,481 is reported in the accompanying financial statements.

(4) **Changes in Claims Liabilities For the Past Two Years** – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	<u>Group Employees Medical & Dental</u>		<u>MUS Group Benefits</u>		<u>Prop. & Casualty Insurance</u>	
	2002	2001	2002	2001	2002	2001
Amount of claims liabilities at the beginning of each fiscal year	\$ 7,181	\$ 7,080	\$ 2,378	\$ 2,271	\$25,234	\$25,347
Incurred claims:						
Provision for insured events of the current year	68,434	54,809	29,642	26,007	6,877	6,314
Increases (decreases) in provision for insured events of prior years	1,983	101	604	107	3,286	(877)
Total incurred claims	70,417	54,910	30,246	26,114	10,163	5,437
Payments:						
Claims attributable to insured events of the current year	(61,440)	(50,140)	(29,642)	(26,007)	(633)	(1,205)
Claims attributable to insured events of prior years	(6,994)	(4,669)	-	-	(4,916)	(4,345)
Total payments	(68,434)	(54,809)	(29,642)	(26,007)	(5,544)	(5,550)
Total claims liability at end of each fiscal year	\$ 9,164	\$ 7,181	\$ 2,982	\$ 2,378	\$29,848	\$25,234

NOTE 9 — COMMITMENTS**A. Highway Construction**

At June 30, 2002, the Department of Transportation had contractual commitments of approximately \$191.7 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2002, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$12.1 million for capital projects construction. The primary government will fund \$10.7 million of these projects, with the remaining \$1.4 million coming from the state university system.

C. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

Primary Government	Amount
<u>Enterprise Funds</u>	
Historical Society Publications	\$ 1
<u>Internal Service Funds</u>	
Highway Equipment	\$3,529
Building and Grounds	228
Information Services Division	160
DEQ Indirect Cost Pool	81
Warrant Processing	53
FWP Equipment	35
FWP Warehouse Inventory	12
Aircraft Operation	12
Admin Supply	11
Employee Group Benefits	6
Commerce Central Services	5
Subtotal-Internal Service Funds	<u>\$4,132</u>
Total-Primary Government	<u>\$4,133</u>
 Component Units	
Housing Authority	\$ 7
Facility Finance Authority	5
Total-Component Units	<u>\$ 12</u>

NOTE 10 — LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Changes in capitalized leases/installment purchases are as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Primary Government					
Governmental Activities	\$5,002	\$1,482	\$2,832	\$3,652	\$1,859
Discretely Presented Component Units					
Montana State University	\$ 237	\$ 492	\$ 317	\$ 412	\$ 149
University of Montana	1,013	837	508	1,342	632
State Comp Ins (New Fund)	37	306	52	291	68
Total Component Units	\$1,287	\$1,635	\$ 877	\$2,045	\$ 849

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units			
	Governmental Activities	Montana State University	University of Montana	State Comp Insurance New Fund	Totals
2003	\$2,000	\$171	\$ 716	\$ 83	\$970
2004	1,231	159	442	82	683
2005	243	107	264	82	453
2006	63	11	54	57	122
2007	37	6	17	20	43
2008-2012	321	-	-	-	-
Total Minimum Pmts	\$3,895	\$454	\$1,493	\$324	\$2,271
Less: Interest	243	42	151	33	226
Present Value of Minimum Payments	\$3,652	\$412	\$1,342	\$291	\$2,045

B. Operating Leases

Total rental payments of primary government and discretely presented component units for operating leases in fiscal year 2002 were \$9,957,000 and \$534,000, respectively. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2003	\$11,269	\$ 519
2004	9,070	477
2005	8,276	511
2006	7,182	171
2007	6,648	39
2008-2012	26,966	167
2013-2017	9,242	162
2018-2022	1,982	162
Total Future Rental Payments	\$80,635	\$2,208

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than \$75 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating government units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in the current portion of bonds/notes payable. The amounts issued and outstanding at June 30, 2002, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2002
1992	\$6,500	\$ 6,075
1994	7,500	7,005
1995	7,500	7,150
1997	10,000	9,775
1998	12,500	12,285
2000	15,000	15,000
Total		<u>\$57,290</u>

C. Long-Term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2002, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2002
				FY 2003	In Year of Maturity (7)	
General Obligation Bonds						
Water Development Program (1)	1989B	\$ 500	8.55	\$ 25	\$ 35 (2006)	\$ 125
Water Development Program (1)	1991A	750	8.0	60	90 (2007)	375
GO Refunding	1992	31,330	5.5-6.2	425	390 (2010)	3,475
Energy Conservation Program (2)	1993A	1,500	4.7-4.75	170	180 (2004)	350
Long-Range Bldg Program	1993B	3,185	4.2-4.25	290	310 (2004)	600
Renewable Resource Development (1)	1993C	750	5.55-5.65	90	95 (2004)	185
Long-Range Bldg Program	1994A	22,540	4.4-6.0	1,010	1,725 (2014)	15,930
Wastewater Treatment Works	1994B	2,200	5.1-6.1	85	180 (2016)	1,765
Long-Range Bldg Program	1994C	21,955	5.25-5.4	900	1,000 (2005)	2,850
Energy Conservation Program (2)	1994D	1,600	5.3-5.5	180	200 (2005)	570
Renewable Resource Development (1)	1994E	750	7.9-8.1	90	105 (2005)	290
Energy Conservation Program (2)	1996A	1,650	4.15-4.4	170	195 (2006)	730
Renewable Resource Development (1)	1996B	1,250	5.9-6.1	130	155 (2006)	570
Wastewater Treatment Works	1996C	2,765	4.8-5.75	120	120 (2017)	2,285
Long-Range Bldg Program	1996D	30,075	5.25-6.0	1,150	2,370 (2017)	25,080
Renewable Resource Development (1)	1996E	1,000	6.95-7.15	100	130 (2007)	580
Renewable Resource Development (1)	1997A	2,000	6.9-7.4	105	210 (2013)	1,650

Governmental Activities	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2002
				FY 2003	In Year of Maturity (7)	
Long-Range Bldg Program	1997B	12,640	4.5-5.0	755	595 (2018)	9,890
Wastewater Treatment Works	1998A	3,510	4.05-5.15	130	260 (2019)	3,150
Long-Range Bldg Program	1998B	34,545	3.9-4.85	1,320	2,555 (2018)	29,675
Information Technology	1998C	41,390	4.5-5.0	4,480	4,075 (2008)	23,265
Long-Range Bldg Program	1998D	14,855	4.4-5.0	100	1,720 (2015)	14,365
Energy Conservation Program (2)	1998E	1,250	4.25-4.6	120	150 (2008)	800
Renewable Res. Prgm Loans-Taxable	1999	1,035	6.0-6.5	50	105 (2015)	945
Long-Range Bldg Program	1999C	16,990	4.0-5.0	620	1,250 (2019)	15,045
Drinking Revolving Fund (10)	1998F	3,065	3.7-4.85	120	230 (2019)	2,840
Drinking Water Revolving Fund (10)	2000A	2,990	4.6-5.6	95	240 (2021)	2,900
Pollution Control Revolving Fund (10)	2000B	3,325	4.6-5.6	100	270 (2021)	3,225
Long-Range Bldg Program	2000C	17,195	5.0-5.55	510	1,320 (2020)	15,440
Information Technology	2000D	18,000	5.0	1,280	2,250 (2010)	14,830
Information Technology	2000E	800	5.6	270	270 (2003)	270
Long-Range Bldg Program	2001B	11,430	4.1-5.25	375	830 (2021)	10,640
Information Technology	2001C	1,600	3.85-4.2	135	185 (2011)	1,420
Energy Conservation Program (2)	2001D	1,250	3.85-4.2	105	145 (2011)	1,105
Renewable Resource Development (1)	2001E	1,040	5.2-6.8	45	105 (2017)	1,040
Drinking Revolving Fund (10)	2001G	3,190	4.0-4.75	95	235 (2022)	3,190
Pollution Control Revolving Fund (10)	2001H	2,690	4.0-4.75	80	200 (2022)	2,690
Total General Obligation Bonds		\$318,590		\$15,885		\$214,135
Special Revenue Bonds						
Water Conservation (3)	-	\$ 50	5.0	\$ 2	\$ 1 (2012)	\$ 22
Department of Transportation	1993	72,375	5.0-5.05	13,095	3,705 (2004)	16,800
Renewable Resource Program (4)	1996A	14,985	4.45-5.2	1,060	110 (2017)	9,230
Renewable Resource Program (4)	1997A	1,205	6.65-7.3	40	110 (2017)	1,075
Renewable Resource Program (4)	1997B	2,660	4.5-5.375	95	210 (2017)	2,320
Developmental Center Project (6)	1994	13,100	5.5-6.4	390	1,015 (2019)	11,055
State Hospital Project (6)	1997	25,915	4.15-5.0	740	1,820 (2022)	23,870
Renewable Resource Program (4)	2001A	420	4.17-5.59	15	30 (2021)	405
Renewable Resource Program (4)	2001B	1,750	5.45-7.1	50	150 (2021)	1,705
Renewable Resource Program (4)	2001C	12,155	2.8-4.3	1,640	790 (2013)	10,620
Renewable Resource Program (4)	2001D	21,450	2.25-4.7	895	1,795 (2018)	21,450
Renewable Resource Program (4)	2001E	885	2.1-4.85	25	65 (2022)	885
Renewable Resource Program (4)	2001F	900	3.3-6.2	20	75 (2022)	900
Total Special Revenue Bonds		\$167,850		\$18,067		\$100,337
Notes Payable						
Middle Creek Dam Project (5)	\$ 3,272	8.125	\$ 43	124 (2034)	\$ 2,975	
Tongue River Dam Project (9)	11,300	-	290	290 (2039)	10,431	
Dept. of Justice INTERCAP Loan (8)	1,905	Variable	116	91 (2012)	1,655	
Dept. of Environmental Quality						
INTERCAP Loan (8)	1,212	Variable	120	75 (2008)	736	
Dept. of Corrections Resident						
Accounting System Loan (11)	320	5.73	64	71 (2005)	202	
Office of the Commissioner of Higher						
Education INTERCAP Loan (8)	372	Variable	95	105 (2005)	301	
Natural Resrc. Damage Lit. Pgm. (12)	1,827	Variable	-	-	1,827	
Dept of Transportation (Motor Pool)						
INTERCAP Loan (8)	10,487	Variable	2,075	409 (2006)	4,916	
Historical Society INTERCAP Loan (8)	100	Variable	32	35 (2005)	100	
Dept of Natural Resources						
INTERCAP Loan (8)	92	Variable	5	10 (2009)	60	
Total Notes Payable	\$ 30,887		\$ 2,840		\$ 23,203	
Deferred Amount on Refunding					337,675	
Unamortized Discount					(987)	
					(130)	
Total Governmental Activities		\$517,327		\$36,792		\$336,558

Governmental Activities	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2002
				FY 2003	In Year of Maturity (7)	
<u>Business-Type Activities</u>						
Bonds/Notes Payable						
State Lottery Note Payable		\$5,025	5.12	\$1,055	\$1,110 (2004)	\$2,165
<u>Economic Development Bonds (13)</u>						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1998	4,976	6.60-7.75	515	130 (2014)	2,180
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (15)	1991	6,234	4.75-6.5	285	294 (2005)	866
Conservation Reserve Enhancement Program (CRP Notes) (16)		8,703	6-8	1,240	43 (2011)	8,703
Subtotal Economic Dev. Bonds		19,913		2,040		11,749
Total Business-Type Activities		\$24,938		\$3,095		\$13,914

- (1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. Series 1989B, 1991A, and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$244,662 of interest owed.
- (6) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (7) Year of maturity refers to fiscal year.
- (8) Montana Board of Investments loans to Departments from the INTERCAP loan program.
- (9) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (10) Provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water system development loans to state political subdivisions.
- (11) Norwest loan to provide funds for the development of a Y2K-compliant resident accounting system.
- (12) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.
- (13) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) – This program is directed by the nine-member Board of Investments, which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Reserve Account E in an amount to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana school districts. The School District Refunding Bonds, and the interest thereon, are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or interest on the bonds.
- (16) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit nor the taxing power of the State of Montana is pledged to the payment of the principal or interest on the Series 1991 Bonds. However, the 1991 bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes (BAN), which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BANs were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANs as of November 15, 1996, were reissued as bonds to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2002, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 15,885	\$10,244	\$ 18,067	\$ 4,356	\$ 2,840	\$ 281
2004	15,470	9,462	8,982	3,747	2,451	209
2005	15,595	8,678	5,522	3,449	1,715	142
2006	15,990	7,889	5,282	3,232	1,090	100
2007	16,185	7,094	4,733	3,021	695	77
2008-2012	64,175	25,003	22,041	12,083	4,402	377
2013-2017	53,610	10,745	22,060	6,780	1,808	170
2018-2022	17,225	1,350	13,650	1,707	1,909	140
2023-2027	-	-	-	-	2,016	102
2028-2032	-	-	-	-	2,155	55
2033-2037	-	-	-	-	1,832	6
2038	-	-	-	-	290	-
Total	\$214,135	\$80,465	\$100,337	\$38,375	\$23,203	\$1,659

Governmental activities notes payable includes INTERCAP loans with an interest rate that varies based on the underlying bond rate of the Montana Board of Investments Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) and is adjusted annually.

Business-Type Activities

Year Ended June 30	State Lottery		Economic Development Bonds	
	Principal	Interest	Principal	Interest
2003	\$1,055	\$ 91	\$ 1,997	\$767
2004	1,110	36	2,106	651
2005	-	-	1,927	529
2006	-	-	1,476	413
2007	-	-	1,444	306
2008-2012	-	-	2,549	407
2013-2014	-	-	250	20
Total	\$2,165	\$127	\$11,749	\$3,093

Debt service requirements of discretely presented component units at June 30, 2002, were as follows (in thousands):

Year Ended June 30	Montana State University		University of Montana		Housing Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 5,079	\$ 4,361	\$ 3,540	\$ 6,212	\$ 37,973	\$ 37,819
2004	5,028	4,121	3,829	6,064	12,401	37,418
2005	5,182	3,881	3,789	5,898	12,772	36,940
2006	5,217	3,628	3,682	5,722	13,164	36,347
2007	4,007	3,392	3,836	5,554	14,362	35,781
2008-2012	20,368	15,553	21,361	24,871	79,372	165,810
2013-2017	22,925	11,861	26,579	19,250	95,928	144,529
2018-2022	29,045	5,160	34,300	11,328	114,205	111,528
2023-2027	3,950	459	18,110	1,750	145,575	73,715
2028-2032	-	-	-	-	140,205	28,862
2033-2037	-	-	-	-	22,120	3,801
2038-2040	-	-	-	-	2,855	323
Total	\$100,801	\$52,416	\$119,026	\$86,649	\$690,942	\$712,873

Montana State University and the University of Montana bonds/notes payable includes INTERCAP loans with an interest rate that varies based on the underlying bond rate of the Montana Board of Investments Municipal Finance Consolidation Act Bonds (INTERCAP Revolving Program) and is adjusted annually.

E. Summary of Changes in Long-Term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2002, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities</u>					
Bonds/Notes Payable					
General Obligation Bonds	\$ 232,220	\$ -	\$ 18,085	\$ 214,135	\$ 15,885
Special Revenue Bonds	115,378	35,390	50,431	100,337	18,067
Notes Payable	22,598	4,175	3,570	23,203	2,840
	370,196	39,565	72,086	337,675	36,792
Deferred Amount on Refunding	-	(1,080)	(93)	(987)	-
Unamortized Discount	-	(139)	(9)	(130)	-
Total Bonds/Notes Payable	370,196	38,346	71,984	336,558	36,792
Other Liabilities					
Compensated Absences Payable	63,199	37,569	34,312	66,456	34,292
Early Retirement Benefits Payable	356	136	156	336	91
Arbitrage Rebate Tax Payable	1,425	259	233	1,451	1,036
Estimated Claims	32,415	80,466	73,869	39,012	15,085
Total Other Liabilities	97,395	118,430	108,570	107,255	50,504
Total-Governmental Activities					
Long-Term Liabilities	\$ 467,591	\$156,776	\$180,554	\$ 443,813	\$ 87,296
<u>Business-Type Activities</u>					
Bonds/Notes Payable					
State Lottery	\$3,167	\$ -	\$1,002	\$2,165	\$1,055
Economic Development Bonds	13,999	1,044	3,294	11,749	2,040
Total Bonds/Notes Payable	17,166	1,044	4,296	13,914	3,095
Other Liabilities					
Compensated Absences Payable	901	572	495	978	491
Arbitrage Rebate Tax Payable	373	74	275	172	72
Estimated Claims	5,617	34,897	35,389	5,125	3,348
Lottery Prizes Payable	3,433	30,842	31,231	3,044	1,337
Total Other Liabilities	10,324	66,385	67,390	9,319	5,248
Total-Business-Type Activities					
Long-Term Liabilities	\$ 27,490	\$ 67,429	\$ 71,686	\$ 23,233	\$ 8,343

Long-term liability activity of discretely presented component units for the year ended June 30, 2002, was as follows (in thousands):

Discretely Presented Component Units

Bonds/Notes Payable					
Montana State University	\$ 100,715	\$ 1,188	\$ 5,311	\$ 96,592	\$ 5,079
University of Montana	119,536	648	3,196	116,988	3,540
Housing Authority	714,021	89,593	113,691	689,923	37,973
Total Bonds/Notes Payable	934,272	91,429	122,198	903,503	46,592
Other Liabilities					
Compensated Absences Payable	36,757	18,505	15,934	39,328	16,728
Arbitrage Rebate Tax Payable	942	660	99	1,503	570
Estimated Claims	430,600	89,731	83,030	437,301	83,642
Total Other Liabilities	468,299	108,896	99,063	478,132	100,940
Total-Discretely Presented Component Units					
Long-Term Liabilities	\$1,402,571	\$200,325	\$221,261	\$1,381,635	\$147,532

The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by the state special revenue and debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated claims liability.

F. Refunded and Early Retired Bonds

Primary Government

Pre-payments and Early Retirements

During fiscal year 2002, the Department of Natural Resources and Conservation (DNRC) used current available resources to pre-pay \$175,000 of Series 1989B Water Development Program Bonds and \$620,000 of Series 2001C Renewable Resource Program Revenue Bonds. DNRC used current available resources to redeem Series 1991B Wastewater Treatment Works Bonds in the amount of \$1,965,000.

Advance Refundings

On August 9, 2001, the Montana Department of Natural Resources and Conservation (DNRC) issued \$12,155,000 of 2001 Refunding Series C, Coal Severance Tax, Renewable Resource Program Bonds to advance refund \$5,100,000 of 1992 Refunding Series A and \$6,840,000 of 1992B Coal Severance Tax, Renewable Resource Program Bonds. The net proceeds of \$11,963,248 (after payment of \$191,752 in underwriting fees and other issuance costs) plus an additional \$315,625 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the 1992 Refunding Series A and the 1992B Series bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$675,000 and an economic gain of \$626,000.

On October 31, 2001, the Montana Department of Natural Resources and Conservation (DNRC) issued \$21,450,000 of 2001 Refunding Series D, Coal Severance Tax, Renewable Resource Program Bonds to advance refund \$21,735,000 of 1991 Refunding Series A Coal Severance Tax, Renewable Resource Program Bonds. The net proceeds of \$21,036,557 (reduced for the original issue discount of \$139,042 and after payment of \$ 274,400 in underwriting fees and other issuance costs) plus an additional \$1,439,629 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the 1991 Refunding Series A bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$5,912,000 and an economic gain of \$4,095,000.

Deferred loss on primary government refundings at June 30, 2002, was \$987,000.

Prior-year Defeasance of Debt

In prior years, the State of Montana has defeased certain general obligation and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2002, \$41.5 million of bonds outstanding are considered defeased.

Discretely Presented Component Units

Current Refundings

Housing Authority – On May 31, 2001, Series 2001A bonds were issued in the amount of \$71,000,000, the proceeds of which were used to refund Series 1991A and 1991B bonds on July 1, 2001. In addition, on March 19, 2002, Series 2002A bonds were issued in the amount of \$39,000,000, the proceeds of which were used to refund the 1992A Series bonds on April 1, 2002.

Deferred loss on Housing Authority refundings at June 30, 2002, was \$972,000.

Prior-year Defeasance of Debt

In prior years, Montana State University and the University of Montana defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2002, \$7.4 and \$55.4 million of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) **Montana Board of Investments (BOI)** – The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2002, industrial revenue bonds outstanding aggregated \$210.7 million.

(2) **Facility Finance Authority (FFA) - Component Unit** – The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from

the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2002, revenue bonds outstanding aggregated \$552.6 million, and notes payable outstanding aggregated \$10.9 million.

The Board of Investments (BOI) and the FFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the FFA funds sufficient to insure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

NOTE 12 — INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 2002, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 2002, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers	
	Receivable	Payable			In	Out
General	\$ 81,067	\$ -	\$19,878	\$ 3,304	\$73,739	\$33,651
<u>Special Revenue</u>						
State	54,681	88,396	12,638	6,362	122,004	89,367
Federal	541	76,159	1,349	4,113	8,054	53,210
<u>Debt Service</u>						
Coal Tax Bonds	1,698	1,771	-	3	14,505	441
Long-Range Building Program	-	-	-	11	14,419	-
Water Development	-	8,996	-	-	7,108	5,627
Highway Revenue Bonds	-	-	-	-	13,749	-
Health Care Debt Service	-	-	-	-	2,888	-
Information Technology Bonds	-	-	-	-	7,677	-
Energy Bonds	-	-	-	-	-	63
<u>Capital Projects</u>						
Long-Range Building Program	-	10	1,000	79	9,260	3,838
Information Technology Project	-	1,674	243	49	65	33
Fed./Private Construction Grants	-	-	-	-	285	-
Capital Land Grant	-	-	9	-	934	1,431
<u>Permanent Funds</u>						
Coal Severance Tax	46,368	-	3	5,907	219	43,120
Land Grant	-	-	6,835	15,198	46,451	54,387
Resource Indemnity Tax	-	-	-	1,230	-	7,321
Parks Trust	-	-	-	369	-	1,101
Cultural Trust	-	-	-	129	-	305
Real Property Trust	-	-	-	254	-	627
Noxious Weed Management	-	970	-	172	-	1,184
Thomas Teakle Trust	-	-	-	-	-	3
Tobacco Settlement Interest	-	-	-	122	5	1,020
<u>Enterprise</u>						
Unemployment Insurance	-	-	18	152	-	-
Economic Development Bonds	-	-	-	4	-	-
Liquor Warehouse	75	-	1	8,407	-	19,332
Hail Insurance	-	-	-	18	-	42
State Lottery	-	-	3	1,600	-	7,467
Prison Ranch	411	-	79	30	-	-
Prison Industries	-	111	129	24	2	-
Womens Prison Industries	-	-	-	-	-	2
MUS Group Insurance	-	-	-	1	-	-
Subsequent Injury	-	-	-	-	-	33

Within Primary Government	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers	
	Receivable	Payable			In	Out
Montana Career Info. Systems	-	-	26	21	-	-
Sec. of State Business Services	190	-	4	47	-	-
Historical Soc. Publications	-	-	-	25	54	-
Surplus Property	-	275	23	19	-	-
West Yellowstone Airport	-	-	-	-	25	-
Judiciary Law Library	6	-	2	11	-	-
Local Govt. Audits	-	-	-	1	-	-
Advanced Drivers Education	-	-	11	14	24	-
FWP Visitor Services	-	-	4	-	15	-
<u>Internal Service</u>						
FWP Equipment	-	300	168	3	240	-
FWP Warehouse Inventory	-	-	4	-	-	-
FWP Office Supply	-	-	6	-	-	-
Highway Equipment	-	-	761	-	612	-
Employee Group Benefits	-	-	8	9	-	-
Information Services Division	40	-	2,254	117	-	-
Administration Insurance	-	4,700	-	123	1,150	436
Motor Pool	-	1,400	421	-	-	-
Administration Supply	275	-	155	4	-	-
Publications & Graphics	-	-	385	9	-	-
Buildings & Grounds	-	-	128	426	933	418
Labor Central Services	-	-	97	65	-	-
Commerce Central Services	-	-	122	20	-	18
OPI Central Services	-	-	217	81	-	-
DEQ Indirect Cost Pool	-	-	677	38	-	-
Mail & Messenger	-	-	308	1	-	-
Payroll Processing	-	-	1	4	-	-
Warrant Processing	-	-	45	44	-	-
Investment Division	-	-	28	54	-	-
Aircraft Operation	-	-	31	1	389	-
Justice Legal Services	-	100	183	4	10	10
Personnel Training	-	-	31	4	-	-
Records Management	-	190	28	7	-	-
Debt Collection/CSC	-	-	-	29	-	104
Statewide Fueling Network	-	-	-	1	-	-
Administration Central Services	-	-	-	3	18	-
MSP Food Factory	-	300	179	4	48	-
<u>Pension (and Other Employee Benefit) Trust Funds</u>						
Voluntary Emp Benefit Assoc.	-	-	-	1	-	-
<u>Private Purpose Trust Funds</u>						
Rural Development	-	-	-	1	-	-
Escheated Property	-	-	311	74	-	395
Total	\$185,352	\$185,352	\$48,803	\$48,803	\$324,882	\$324,986

In the fund financial statements, total transfers in of \$324,882 are less than total transfers out of \$324,986 because of the treatment of transfers of capital assets from the Debt Collection/CSC internal service fund. During the year, existing capital assets related to the internal service fund, with a book value of \$104,000 were transferred to the General Fund. No amounts were reported in the governmental fund, as the transaction did not involve the transfer of financial resources. However, the internal service fund did report a transfer out for the capital resources provided.

NOTE 13 — FUND DEFICITS

The following funds have a deficit fund balance/net assets found on the operating statements for June 30, 2002, (in thousands):

	<u>Deficit</u>
Primary Government	
Governmental Activities	
<u>Internal Service Funds</u>	
Records Management	(94)
Administration Insurance	(33,303)
Justice - Legal	(2)
Business-Type Activities	
<u>Enterprise Funds</u>	
Subsequent Injury	(17)
Judiciary Law Library	(3)
Total Fund Deficits – Primary Government	<u>\$ (33,419)</u>
<u>Fiduciary Funds</u>	
Public Employee Defined Contribution Plan	\$ (1,027)
Voluntary Employee Benefit Association	(28)
Total Fund Deficits – Fiduciary Funds	<u>\$ (1,055)</u>

The net assets deficit in the Administration Insurance and Subsequent Injury funds are due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of these funds. The deficit fund balance in the Public Employee Defined Contribution Plan is based on start-up costs. Member contributions will not be made until July 1, 2003.

NOTE 14 — RESERVED FUND BALANCES

Federal Special Revenue Fund – The reserve for Montana's Federal Family Education Loan Program is comprised of the following: \$5,290,229 reserve for recalled funds under the Federal Balanced Budget Act of 1997, P.L. 105-33; and \$6,772,062 reserve related to Federal Student Loan Reserve Fund activities.

Coal Tax Trust Permanent Fund – The reserve for trust principal is comprised of the following: Permanent Coal Tax Trust \$528,092,626; Treasure State Endowment Fund \$105,754,250; and the School Bond Contingency Loan Fund \$2,177,964.

NOTE 15 — RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 54.02% of the Regents' outstanding loan volume, or \$410,468,710, is held by MHESAC. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF), and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. Lewis & Clark County owns the building that houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, SAF has the option to purchase the building. OCHE paid SAF during fiscal year 2002 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State; equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2002 amounted to \$471,006. SAF employees are allowed to participate in the university system group insurance plan, and SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2002, SAF paid OCHE a total of \$598,558.

There is a foundation affiliated with each university and college unit that solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity, each unit exercises significant

influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses, and an annually contracted fee. The units paid their foundations approximately \$1,882,004 in fiscal year 2002. In return the universities received from their foundations approximately \$15,358,889 during fiscal year 2002 for scholarships and academic/institutional support. In addition to support from their affiliated foundations, the University of Montana-Missoula, University of Montana-Western, Montana State University-Billings, and Montana State University-Bozeman received a total of \$4,037,749 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

The FWP Foundation is affiliated with the Department of Fish, Wildlife & Parks. Its purpose is to provide private support for the efforts of the department and to take a leading role in insuring the protection of Montana's natural, cultural, and recreational resources for future generations. In fiscal year 2002, the department provided \$69,960 in support of the Foundation, and the Foundation provided \$15,500 to the department.

The Department of Administration, Personnel Division, has a staff member that serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association \$1,000 per year to maintain its membership

NOTE 16 — CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The State of Montana is involved in a lawsuit with the potential for substantial recovery of monetary relief against private parties. State of Montana v. Atlantic Richfield Co., No CV-83-317-H-PHG(D.Mont.), is a case where natural resource damage claims have been asserted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, with respect to environmental injury to Clark Fork River Basin. The State and Atlantic Richfield settled a portion of the case for \$215 million, but unresolved is a claim by the State for \$180 million. Atlantic Richfield filed a counterclaim against the State, the amount of which is unspecified and therefore could reduce or exceed the State's remaining claim. The State believes it has meritorious defenses to the counterclaim. Any recovery in this litigation must be used under federal and state law to further reclamation and recovery efforts or to offset attorney fees and assessment costs incurred by the State.

In United States ex rel. Matthew J. Sisler vs. State of Montana et al., filed in the United States District Court, State of Montana, Missoula Division, Cause No. CV 99-125-M-DWM, plaintiffs allege that Department of Public Health and Human Services and its agent Healthy Mothers, Healthy Babies, a nonprofit corporation, fraudulently submitted monies to the federal government which were claimed as donations and as such eligible for federal matching funds. The complaint alleges that approximately \$1 million was paid to the State of Montana during the time period at issue. It is further alleged that the federal government is entitled to treble damages plus civil penalties of \$5,000 to \$10,000 for each violation. The State believes the amount of loss in monetary terms may be closer to \$300,000 rather than the higher claim asserted in the complaint.

In Travis D., et al. v. Eastmont Human Services Center, et al., filed in the United States District Court, District of Montana, Helena Division, Civil Action No. CV 96-63-H-CCL, plaintiffs allege that the State of Montana, in its operation of the Eastmont Human Services Center and the Montana Development Center, is not placing residents in the "least restrictive environment." In addition, plaintiffs' second amended complaint, dated November 2, 2001, expanded their claims to demand services for those Medicaid eligible recipients who are "at risk" of being institutionalized or on a "waiting list" for services but cannot be served due to limited funding provided by the Montana legislature for the "home and community services program" for the developmentally disabled. Their claims are based upon alleged violations of the Americans with Disabilities Act, Title XIX of the Social Security Act (Medicaid), and a constitutional equal protection and due process. The court has denied a motion for summary judgment filed by the defendants, who plan an appeal. The trial date of May 26, 2003, has been vacated. The State estimates the annual loss in monetary terms (based upon the amended complaint) at \$25 million, of which \$12.775 million would be federal funds and \$12.225 million would be general fund.

B. Federal Contingencies

Federal Financial Assistance — The State receives federal financial assistance for specified purposes, which is subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 2002.

USDA Commodities – In fiscal year 2002, the State distributed \$7,040,644 in commodities. The value of the commodities stored in the State's warehouses was \$2,341,362 at June 30, 2002, for which the State is liable in the event of loss.

C. Miscellaneous Contingencies

Commitment Fees – The Board of Investments (BOI) and the Facility Finance Authority (FFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the FFA funds sufficient to insure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2002, was \$36,883,151.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2002, was \$60,335,799.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2002, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust
Coal Severance	\$ 4,235	\$ -	\$ -
Metal Mines	10	7	-
Oil & Gas	1,256	75	-
Resource Indemnity	-	63	63
Total	\$5,501	\$145	\$63

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2002. After review, the State has denied these refund requests. The corporations have appealed the decision. As of June 30, 2002, these include \$14,330,603 of General Fund corporation tax refunds.

NOTE 17 — SUBSEQUENT EVENTS

Bond Issues

In July 2002, the Montana Board of Housing issued \$52.19 million of single-family mortgage bonds, 2002 Series B.

In July 2002, the Department of Environmental Quality issued \$2.5 million of General Obligation State Hard Rock Mining Reclamation Bonds, Series 2002C.

In July 2002, the Department of Administration issued \$10.475 million of General Obligation Long Range Building Program Bonds, Series 2002B.

In July 2002, the Board of Regents of the Montana University System authorized the issuance of Series G 2002 Revenue Bonds. The bonds were subsequently issued on October 7, 2002. The bond proceeds of approximately \$18.5 million will be used for the purpose of constructing a student housing complex on the University of Montana – Missoula campus.

On October 16, 2002, the State of Montana issued \$15.805 million of General Obligation Refunding Bonds, Series 2002D.

On October 17, 2002, the State of Montana issued \$92.8 million in Tax and Revenue Anticipation Notes.

Board of Investments

Retirement Funds Bond Pool

The RFBP holds a \$7 million par, 6.40% Enron bond maturing July 15, 2006, and a \$7 million par, 6.95% Enron bond maturing July 15, 2028. The combined book value of these securities was \$13,582,030 as of November 30, 2001. On

December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, the Board of Investments (BOI) reduced the book value for the two issues to \$5.6 million as of June 30, 2002. In October 2002, the book value was reduced to \$2.8 million for both issuers. BOI, currently, anticipates receiving up to \$2.8 million from bankruptcy claims.

Deutsche Bank Securities, Inc. Complaint

The board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, \$5 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002, sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities seeks damages of \$538,632 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs, and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. BOI tendered the Pennzoil Quaker State holdings on October 8, 2002, at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, BOI received \$5,683,075 in principal and interest plus \$150,000 as a consent fee.

The RFBP portfolio includes a \$6,000,000 par, 6.95% WorldCom Inc. bond maturing August 15, 2028. The book value of this bond, originally purchased at a discount, was \$5,477,400 on June 30, 2002. On July 21, 2002, WorldCom Inc. filed for Chapter 11 bankruptcy protection. As of July 31, 2002, the reduced book value is \$2,400,000. At this time, BOI expects bankruptcy recovery up to \$2,400,000. On November 7, 2002, the Attorney General for the State of Montana filed a lawsuit against certain WorldCom executives, directors, and financial institutions associated with WorldCom such as Arthur Andersen and CitiGroup. The lawsuit, filed in Lewis and Clark County, Montana, alleges that the defendants filed "false and misleading registration statements" relating to the purchase of the bonds by the Montana Board of Investments.

Trust Funds Bond Pool

The TFBP holds a \$2 million par, 6.75% Enron bond maturing August 1, 2009; a \$3 million par, 6.40% Enron bond maturing July 15, 2006; and a \$3 million par Enron bond maturing July 15, 2028. The combined book value of these securities was \$7,560,870 as of November 30, 2001. On December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, we reduced the book value for the three issues to \$3.2 million as of June 30, 2002. In October 2002, the book value was reduced to \$1.6 million for the three issues. BOI, currently, anticipates receiving up to \$1.6 million from bankruptcy claims.

Deutsche Bank Securities, Inc. Complaint

BOI received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, \$8 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002, sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities seeks damages of \$861,811 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs, and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. BOI tendered the Pennzoil Quaker State holdings on October 8, 2002, at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, BOI received \$9,092,920 in principal and interest plus \$240,000 as a consent fee.

The TFBP portfolio includes a \$9,000,000 par, 6.95% WorldCom Inc. bond maturing August 15, 2028. The book value of this bond, originally purchased at a discount, was \$8,216,100 on June 30, 2002. On July 21, 2002, WorldCom Inc. filed for Chapter 11 bankruptcy protection. As of July 31, 2002, the reduced book value was \$3,600,000. At this time, BOI expects bankruptcy recovery up to \$3,600,000. On November 7, 2002, the Attorney General for the State of Montana files a lawsuit against certain WorldCom executives, directors, and financial institutions associated with WorldCom such as Arthur Andersen and CitiGroup. The lawsuit, filed in Lewis and Clark County, Montana, alleges that the defendants filed "false and misleading registration statements" relating to the purchase of the bonds by the BOI.

Montana Stock Pool

Owens-Corning Complaint

BOI received a summons and complaint, dated October 11, 2002, regarding the bankruptcy of Owens-Corning. The company seeks a determination that the dividend payments paid from October 1996 through July 2000 represent "fraudulent transfers" under Chapter 11 Bankruptcy provisions and applicable state law and are, therefore, voidable. The complaint states that BOI was the "recipient of dividends in the amount of \$357,099 for the relevant period".

All Other Funds

Deutsche Bank Securities, Inc. Complaint

BOI received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, \$2 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002, sale of the bond at a price of \$94.669 plus accrued interest. Deutsche Bank Securities seeks damages of \$215,453,453 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs, and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State Debt. BOI tendered the Pennzoil Quaker State holdings on October 8, 2002, at a price of \$113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, BOI received \$2,273,230 in principal and interest plus \$60,000 as a consent fee.

STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 109,265	\$ 109,265	\$ 115,808	\$ 6,543
Taxes:				
Natural resource	26,186	26,186	24,700	(1,486)
Individual income	574,962	574,962	516,532	(58,430)
Corporate income	80,301	80,301	68,379	(11,922)
Property	173,754	173,754	166,786	(6,968)
Fuel	-	-	-	-
Other	190,873	190,873	151,781	(39,092)
Charges for services/fines/forfeits/settlements	43,461	43,461	50,556	7,095
Investment earnings	17,690	17,690	13,125	(4,565)
Sale of documents/merchandise/property	262	262	291	29
Rentals/leases/royalties	91	91	46	(45)
Contributions/premiums	-	-	12	12
Grants/contracts/donations	2,305	2,305	1,333	(972)
Federal	24,816	24,816	22,866	(1,950)
Federal indirect cost recoveries	100	100	87	(13)
Other revenues	354	354	195	(159)
Total revenues	1,244,420	1,244,420	1,132,497	(111,923)
EXPENDITURES				
Current:				
General government	159,645	160,070	155,599	4,471
Public safety/corrections	131,054	131,924	129,045	2,879
Transportation	177	182	172	10
Health/social services	270,653	276,043	275,280	763
Education/cultural	601,167	636,225	538,576	97,649
Resource development/recreation	26,844	30,298	29,962	336
Economic development/assistance	21,075	21,071	20,794	277
Debt service:				
Principal retirement	339	339	546	(207)
Interest/fiscal charges	59	59	59	-
Capital outlay	1,463	1,308	1,708	(400)
Total expenditures	1,212,476	1,257,519	1,151,741	105,778
Excess of revenue over (under) expenditures	31,944	(13,099)	(19,244)	(6,145)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	-	-
Bond proceeds	303	303	-	(303)
Proceeds of refunding bonds	-	-	-	-
Discount on bonds/notes issued	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
General fixed asset sale proceeds	41	41	82	41
Operating transfers in	64,939	64,939	72,499	7,560
Operating transfers out	(25,434)	(24,958)	(23,212)	1,746
Transfers to component units	(123,089)	(123,089)	(123,295)	(206)
Total other financing sources (uses)	(83,240)	(82,764)	(73,926)	8,838
Excess of revenues/other sources over (under) expenditures/other uses (Budgetary basis)	(51,296)	(95,863)	(93,170)	2,693
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Adjust expenditures for encumbrances	-	-	2,695	2,695
2. Adjustments for nonbudgeted activity	-	-	(9,350)	(9,350)
3. Intrafund elimination - revenues/transfers in	-	-	-	-
4. Intrafund elimination - expenditures/transfers out	-	-	-	-
5. Securities lending income	-	-	608	608
6. Securities lending costs	-	-	(531)	(531)
Excess of revenues/other sources over (under) expenditures/other uses (GAAP basis)	(51,296)	(95,863)	(99,746)	(3,885)
Unreserved fund balances - July 1	172,897	172,897	172,897	
Prior period adjustments	-	-	7,445	7,445
Decrease (increase):				
Encumbrances reserve	-	-	849	849
Advances to other funds reserve	-	-	(60)	(60)
Long-term loans reserve	-	-	(67)	(67)
Trusts/endowments/fed loans reserve	-	-	-	-
Unreserved fund balances - June 30	\$ 121,601	\$ 77,034	\$ 81,316	\$ 4,282

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 112,429	\$ 112,429	\$ 86,630	\$ (25,799)	\$ -	\$ -	\$ -	\$ -
47,456	47,456	41,981	(5,475)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,415	9,415	1,432	(7,983)	-	-	-	-
188,657	188,657	192,750	4,093	-	-	-	-
41,849	41,849	36,193	(5,656)	1	1	5	4
87,315	87,315	77,595	(9,720)	38,771	38,771	32,290	(6,481)
9,441	9,441	15,597	6,156	3,062	3,062	615	(2,447)
6,512	6,512	6,604	92	1	1	-	(1)
839	839	520	(319)	-	-	-	-
5,794	5,794	6,229	435	-	-	-	-
14,328	14,328	15,961	1,633	2,355	2,355	65	(2,290)
6,675	6,675	1,857	(4,818)	1,401,565	1,401,565	1,238,927	(162,638)
12	12	-	(12)	1,624	1,624	2,652	1,028
6,455	6,455	2,302	(4,153)	1,459	1,459	659	(800)
537,177	537,177	485,651	(51,526)	1,448,838	1,448,838	1,275,213	(173,625)
86,873	87,438	58,242	29,196	4,933	5,240	3,737	1,503
33,854	34,728	27,609	7,119	59,173	70,640	29,448	41,192
194,567	195,413	157,402	38,011	316,027	328,676	284,799	43,877
101,616	103,740	68,525	35,215	759,505	781,655	681,171	100,484
53,974	54,159	50,804	3,355	149,669	153,602	132,641	20,961
169,747	102,523	60,932	41,591	26,410	41,513	20,531	20,982
60,194	65,367	45,611	19,756	117,488	129,824	93,093	36,731
1,880	64,725	1,151	63,574	281	266	182	84
561	12,840	3,955	8,885	31	30	20	10
9,548	7,161	20,492	(13,331)	1,183	2,218	11,858	(9,640)
712,814	728,094	494,723	233,371	1,434,700	1,513,664	1,257,480	256,184
(175,637)	(190,917)	(9,072)	181,845	14,138	(64,826)	17,733	82,559
1,749	1,749	279	(1,470)	70	70	-	(70)
2,016	2,016	1,184	(832)	-	-	-	-
34,873	34,873	33,605	(1,268)	-	-	-	-
-	-	(139)	(139)	-	-	-	-
-	-	(21,037)	(21,037)	-	-	-	-
217	217	252	35	-	-	-	-
83,849	83,849	37,320	(46,529)	36,692	36,692	(27,753)	(64,445)
(15,377)	(15,693)	74,277	89,970	(69,761)	(66,726)	4,562	71,288
(13,920)	(13,920)	(13,920)	-	(500)	(500)	(500)	-
93,407	93,091	111,821	18,730	(33,499)	(30,464)	(23,691)	6,773
(82,230)	(97,826)	102,749	200,575	(19,361)	(95,290)	(5,958)	89,332
-	-	(5,731)	(5,731)	-	-	889	889
-	-	(68,841)	(68,841)	-	-	2,132	2,132
-	-	(481)	(481)	-	-	(1,075)	(1,075)
-	-	481	481	-	-	1,075	1,075
-	-	888	888	-	-	7	7
-	-	(778)	(778)	-	-	(6)	(6)
(82,230)	(97,826)	28,287	126,113	(19,361)	(95,290)	(2,936)	92,354
425,608	425,608	425,815	207	9,967	9,967	9,967	-
-	-	4,566	4,566	-	-	(6,408)	(6,408)
-	-	3,186	3,186	-	-	2,475	2,475
-	-	(10,082)	(10,082)	-	-	-	-
-	-	(12,300)	(12,300)	-	-	128	128
-	-	-	-	-	-	(5,510)	(5,510)
\$ 343,378	\$ 327,782	\$ 439,472	\$ 111,690	\$ (9,394)	\$ (85,323)	\$ (2,284)	\$ 83,039

State of Montana
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2002

NOTE RSI-1— BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and the proposed budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There have been budget amendments authorized for fiscal year 2002 that were material to specific budgets; however, they did not materially affect the State's budget as a whole. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/net assets are not reserved for reverted appropriations. For fiscal year 2002, reverted appropriations were as follows: General Fund - \$6.1 million, State Special Revenue Fund - \$40.6 million, and Federal Special Revenue Fund - \$107.6 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana for the fiscal year ended June 30, 2002, and have issued our report thereon dated December 31, 2002. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

December 31, 2002

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2002

AMOUNT

PEACE CORPS

08.999	Miscellaneous Non-Major Grants	11,060
	TOTAL	\$11,060

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	897,681
10.156	Federal-State Marketing Improvement Program	66,992
10.162	Inspection Grading and Standardization	67,621
10.206	Grants for Agricultural Research-Competitive Research Grants	112,145
10.210	Food and Agricultural Sciences National Needs	75,604
10.302	Initiative for Future Agriculture and Food Systems: From University of Wyoming	116,294
10.303	Integrated Programs	55,471
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	466,283
10.500	Cooperative Extension Service	3,189,325
10.500	Cooperative Extension Service: From Utah State Univ.	47,791
10.550	Food Distribution	2,315,912
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	13,792,099
10.558	Child and Adult Care Food Program	9,291,802
10.560	State Administrative Expenses for Child Nutrition	561,708
10.565	Commodity Supplemental Food Program	1,256,107
10.567	Food Distribution Program on Indian Reservations	3,745,573
10.570	Nutrition Program for the Elderly (Commodities)	1,263,087
10.572	WIC Farmers' Market Nutrition Program (FMNP)	34,265
10.574	Team Nutrition Grants	96,895
10.601	Market Access Program: From Wst. U.S. Ag Trade Assoc.	32,482
10.652	Forestry Research	20,013
10.664	Cooperative Forestry Assistance	2,958,096
10.664	Cooperative Forestry Assistance: From Nat.Fish & Wild. Found.	8,495
10.672	Rural Development, Forestry, and Communities	199,135
10.771	Rural Cooperative Development Grants	275,947
10.901	Resource Conservation and Development	46,717
10.906	Watershed Surveys and Planning	6,875
10.961	International Agricultural Research Program	1,081
10.999	Miscellaneous Non-Major Grants	78,432

State of Montana
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		AMOUNT
10.999	Miscellaneous Non-Major Grants: From Commodity Credit Corp.	300,187
10.999	Miscellaneous Non-Major Grants: From Dull Knife College	253
TOTAL		\$41,380,368
CHILD NUTRITION CLUSTER		
10.553	School Breakfast Program	3,253,362
10.555	National School Lunch Program	14,634,967
10.556	Special Milk Program for Children	42,997
10.559	Summer Food Service Program for Children	562,817
TOTAL		\$18,494,143
EMERGENCY FOOD ASSIST. CLUSTER		
10.568	Emergency Food Assistance Program (Administrative Costs)	240,656
10.569	Emergency Food Assistance Program (Food Commodities)	862,526
TOTAL		\$1,103,182
FOOD STAMP CLUSTER		
10.551	Food Stamps	54,010,602
10.561	State Administrative Matching Grants for Food Stamp Program	7,540,683
TOTAL		\$61,551,285
SCHOOL AND ROADS CLUSTER		
10.665	Schools and Roads: Grants to States	13,474,861
TOTAL		\$13,474,861
DEPARTMENT OF COMMERCE		
11.302	Economic Development Support for Planning Organizations: From Beartooth Res. Cons. Dev.	8,751
11.550	Public Telecommunication Facilities-Planning and Construction	(36,272)
11.552	Telecommunications and Information Infrastructure Assistance Program	145,589
11.609	Measurement and Engineering Research and Standards	270,260
11.611	Manufacturing Extension Partnership	7,201
TOTAL		\$395,549
PUBLIC WORKS AND E.D. CLUSTER		
11.307	Special Economic Development and Adjustment Assistance Program	361,861
TOTAL		\$361,861

State of Montana
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AMOUNT

DEPARTMENT OF DEFENSE

12.110	Planning Assistance to States	616,367
12.112	Payments to States in Lieu of Real Estate Taxes	26,490
12.114	Collaborative Research and Development	21,051
12.400	Military Construction National Guard	7,182,787
12.401	National Guard Military Operations and Maintenance Projects	9,248,338
12.404	National Guard Civilian Youth Opportunities	1,642,386
12.630	Basic, Applied, and Advanced Research in Science and Engineering	1,766
12.900	Language Grant Program	92,397
12.999	West Point Academy	64,404
TOTAL		\$18,895,986

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	240,140
14.228	Community Development Block Grant/States Program	6,959,616
14.231	Emergency Shelter Grants Program	369,992
14.239	Home Investment Partnerships Program	3,332,196
14.241	Housing Opportunities for Persons with AIDS	9,739
14.246	Community Development Block Grants/Economic Development Initiative	1,026,816
14.871	Section 8 Housing Choice Vouchers	14,101,474
TOTAL		\$26,039,973

SECTION 8 PROJECT-BASED CLUSTER

14.195	Section 8 Housing Assistance Payments Program Special Allocations	12,627,897
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	2,166,040
TOTAL		\$14,793,937

DEPARTMENT OF THE INTERIOR

15.670	National Forest Dependent Rural Communities	38,960
15.034	Agriculture on Indian Lands	134,982
15.041	Environmental Management Indian Programs: From The Environmental Company	1,145
15.114	Indian Education: Higher Education Grant Program	4,350
15.130	Indian Education: Assistance to Schools	38,658

State of Montana
Schedule of Expenditures of Federal Awards
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	AMOUNT
15.224 Cultural Resource Management	18,151
15.225 Recreation Resource Management	14,307
15.250 Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	848,990
15.252 Abandoned Mine Land Reclamation (AMLR) Program	3,284,967
15.299 Miscellaneous Non-Major Grants	238,097
15.504 Reclamation and Water Reuse Program	210,230
15.608 Fish and Wildlife Management Assistance	147,612
15.612 Endangered Species Section 6	79,067
15.615 Cooperative Endangered Species Conservation Fund	118,224
15.617 Wildlife Conservation and Appreciation	883
15.625 Wildlife Conservation and Restoration	257,502
15.805 Assistance to State Water Resources Research Institutes	26,022
15.806 Water Education Program	70,167
15.808 U.S. Geological Survey-Research and Data Acquisition	2,415
15.809 National Spatial Data Infrastructure Competitive Cooperative Agreements Program	463,344
15.904 Historic Preservation Fund Grants-in-Aid	1,095,301
15.912 National Historic Landmark	65,615
15.915 Technical Preservation Services	30,723
15.916 Outdoor Recreation: Acquisition, Development and Planning	28,043
15.921 Rivers, Trails and Conservation Assistance	996
15.923 National Center for Preservation Technology and Training	1,754
15.999 Miscellaneous Non-Major Grants	2,881,871
TOTAL	\$10,102,376

FISH AND WILDLIFE CLUSTER

15.605 Sport Fish Restoration	5,649,187
15.611 Wildlife Restoration	5,548,340
TOTAL	\$11,197,527

DEPARTMENT OF JUSTICE

16.001 Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	41,258
16.007 State Domestic Preparedness Equipment Support Program	128,744
16.523 Juvenile Accountability Incentive Block Grants	1,990,810
16.525 Grants to Reduce Violent Crimes Against Women on Campus	31,844
16.540 Juvenile Justice and Delinquency Prevention: Allocation to States	707,441

State of Montana
Schedule of Expenditures of Federal Awards
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	AMOUNT
16.547 Victims of Child Abuse	61,562
16.548 Title V Delinquency Prevention	119,719
16.549 Part E State Challenge Activities	87,498
16.550 State Justice Statistics Program For Statistical Analysis Centers	54,405
16.554 National Criminal History Improvement Program (NCHIP)	449,930
16.575 Crime Victim Assistance	1,557,748
16.576 Crime Victim Compensation	225,000
16.579 Byrne Formula Grant Program	2,605,847
16.586 Violent Offender Incarceration and Truth in Sentencing Incentive Grants	4,459,748
16.588 Violence Against Women Formula Grants	840,399
16.592 Local Law Enforcement Block Grants Program	185,760
16.593 Residential Substance Abuse Treatment for State Prisoners	873,645
16.609 Planning, Implementing, and Enhancing Strategies in Community Prosecution	8,479
16.710 Public Safety Partnership and Community Policing Grants	697,276
16.727 Combating Underage Drinking	371,283
16.999 Miscellaneous Non-Major Grants	181,800
TOTAL	\$15,680,196

DEPARTMENT OF LABOR

17.002 Labor Force Statistics	836,018
17.005 Compensation and Working Conditions Data	62,760
17.203 Labor Certification for Alien Workers	48,785
17.225 Unemployment Insurance	90,479,633
17.245 Trade Adjustment Assistance-Workers	1,302,234
17.248 Employment and Training Research and Development Projects	18,331
17.249 Employment Services and Job Training: Pilot and Demonstration Programs	2,508,612
17.253 Welfare-to-Work Grants to States and Localities	66,231
17.257 One-Stop Career Center Initiative	348,196
17.504 Consultation Agreements	470,509
17.600 Mine Health and Safety Grants	131,513
17.805 Homeless Veterans Reintegration Project	129,184
TOTAL	\$96,402,006

EMPLOYMENT SERVICES CLUSTER

17.207 Employment Service: From MT Job Training Partner.	6,208,870
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2002

		AMOUNT
17.801	Disabled Veterans Outreach Program (DVOP)	219,692
17.804	Local Veterans' Employment Representative Program	584,261
TOTAL		\$7,012,823
NATIVE AMERICAN EMPLOYMENT AND TRAINING		
17.251	Native American Employment and Training Programs	46,247
TOTAL		\$46,247
WORKFORCE INVESTMENT ACT CLUSTER		
17.258	WIA Adult Program	3,705,278
17.259	WIA Youth Activities	4,011,284
17.260	WIA Dislocated Workers	13,127,044
TOTAL		\$20,843,606
DEPARTMENT OF STATE		
19.404	Professional Development International Educators/Administrators	(575)
19.405	College and University Partnerships Program	148,446
19.406	College & University Affiliations Program	374,721
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels	225,015
19.999	Miscellaneous Grants	105,094
TOTAL		\$852,701
DEPARTMENT OF TRANSPORTATION		
20.005	Boating Safety Financial Assistance	319,147
20.215	Highway Training and Education	(4,220)
20.218	Motor Carrier Safety Assistance Program	772,019
20.219	National Recreational Trails Funding Program	42,051
20.505	Federal Transit Technical Studies Grant	262,074
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	332,232
20.700	Pipeline Safety	12,510
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	130,218
TOTAL		\$1,866,031
FEDERAL TRANSIT CLUSTER		
20.507	Federal Transit Capital and Operating Assistance Formula Grants	1,324,175
TOTAL		\$1,324,175

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2002

AMOUNT

HIGHWAY PLAN. & CONST. CLUSTER

20.205	Highway Planning and Construction	280,394,261
		TOTAL \$280,394,261

HIGHWAY SAFETY CLUSTER

20.600	State and Community Highway Safety	2,759,098
		TOTAL \$2,759,098

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	112,490
		TOTAL \$112,490

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices	134,920
		TOTAL \$134,920

GENERAL SERVICES ADMINISTRATION

39.003	Donation of Federal Surplus Personal Property	919,285
		TOTAL \$919,285

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program	32,954
43.001	Aerospace Education Services Program: From Thermal Biology Institute	3,927
43.001	Aerospace Education Services Program: From University of Wyoming	10,396
43.002	Technology Transfer: From L.B. Johson Space Center	1,030,642
43.999	Miscellaneous Non-Major Grants	147,077
		TOTAL \$1,224,996

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals	26,328
45.025	Promotion of the Arts-Partnership Agreements	504,038
45.026	Promotion of the Arts-Leadership Initiatives	3,002
45.122	Promotion of the Arts Leadership Initiatives	18
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm Humanities	10,051
45.162	Promotion of the Humanities-Education Development and Demonstration	20,780

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2002

AMOUNT

45.166	Promotion of the Humanities Extending the Reach Grants to Underserved Areas	11,008
45.301	Institute of Museum and Library Services - General Operating Support	906,588
45.312	Institute of Museum and Library Services - National Leadership Grants	27,493

TOTAL	\$1,509,306
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NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	116,735
47.049	Mathematical and Physical Sciences	81
47.049	Mathematical and Physical Sciences: From Nat. Council for Teachers Math	30,287
47.050	Geosciences	134,638
47.050	Geosciences: From Univ. of Wyoming	4,848
47.070	Computer and Information Science and Engineering	94,384
47.074	Biological Sciences	177,939
47.076	Education and Human Resources	840,052
47.076	Education and Human Resources: From City Univ. New York	23,060
47.076	Education and Human Resources: From Portland State University	1,201
47.076	Education and Human Resources: From Montana Co. Math	76,577
47.999	Miscellaneous Non-Major Grants: From As. of Amer. St. Geolog.	2,479

TOTAL	\$1,502,281
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SMALL BUSINESS ADMINISTRATION

59.037	Small Business Development Center	548,545
59.046	Microloan Demonstration Program	134,399
59.999	Miscellaneous Non-Major Grants	123,914

TOTAL	\$806,858
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DEPARTMENT OF VETERANS AFFAIRS

64.011	Veterans Dental Care	21,154
64.014	Veterans State Domiciliary Care	132,493
64.015	Veterans State Nursing Home Care	2,873,404
64.120	Post-Vietnam Era Veterans' Educational Assistance	4,931
64.124	All-Volunteer Force Educational Assistance	58,615
64.203	State Cemetery Grants	226,244

TOTAL	\$3,316,841
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2002

AMOUNT

ENVIRONMENTAL PROTECTION AGENCY

66.420	State and Local Manpower Development Program	39,511
66.433	State Underground Water Source Protection	106,011
66.456	National Estuary Program	(27,406)
66.458	Capitalization Grants For State Revolving Funds	11,790,221
66.460	Nonpoint Source Implementation Grants	2,443,628
66.461	Wetlands Protection - State Development Grants	353,188
66.463	National Pollutant Discharge Elimination System Related State Program Grants: From North Powell Consev. District	6,784
66.468	Capitalization Grants for Drinking Water State Revolving Fund	10,729,548
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	11,205
66.600	Environmental Protection Consolidated Grants Program	162,034
66.605	Performance Partnership Grants	4,075,271
66.606	Surveys, Studies, Investigations and Special Purpose Grants	16,386
66.607	Training and Fellowships for the Environmental Protection Agency	12,798
66.608	One Stop Reporting	(2,478)
66.708	Pollution Prevention Grants Program	109,146
66.708	Pollution Prevention Grants Program: From EPA Region 8	(68)
66.802	Superfund State Site - Specific Cooperative Agreements	975,424
66.805	Leaking Underground Storage Tank Trust Fund Program	596,074
66.808	Solid Waste Management Assistance	13,665
66.809	Superfund State Core Program Cooperative Agreements	1,034,469
66.811	Brownfield Pilots Cooperative Agreements	22,682
66.951	Environmental Education Grants	13,944
	TOTAL	\$32,482,037

DEPARTMENT OF ENERGY

81.041	State Energy Program	434,841
81.042	Weatherization Assistance for Low-Income Persons	2,585,140
81.049	Office of Energy Research Financial Assistance Program: From Inland Northance	28,023
81.086	Conservation Research and Development	2,045,556
81.104	Technology Development for Environmental Management: From Mountain State Energy	297,152

State of Montana
Schedule of Expenditures of Federal Awards
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	AMOUNT
81.116 Science and Engineering Training to Support Diversity-Related Programs: From Inland NW Research	27,727
81.119 State Energy Program Special Projects	8,000
81.999 Miscellaneous Non-Major Grants	224,777
TOTAL	\$5,651,216

FEDERAL EMERGENCY MANAGEMENT AGENCY

83.007 Reimbursement for Firefighting on Federal Property	308,630
83.012 Hazardous Materials Assistance Program	3,207
83.527 Emergency Management Institute - Training Assistance	25,758
83.536 Flood Mitigation Assistance	57,714
83.539 Crisis Counseling	132,100
83.542 Fire Suppression Assistance	16,564,335
83.544 Public Assistance Grant	2,144,393
83.547 First Responder Anti-Terrorism Training Assistance	80,192
83.548 Hazard Mitigation Grant	463,909
83.552 Emergency Management Performance Grants	1,386,886
83.557 Pre-Disaster Mitigation	19,393
TOTAL	\$21,186,517

DEPARTMENT OF EDUCATION

84.002 Adult Education - State Grant Program	1,261,128
84.010 Title I Grants To Local Education Agencies	27,410,292
84.011 Migrant Education - Basic State Grant Program	750,830
84.013 Title I Program for Neglected and Delinquent Children	99,284
84.015 National Resource Centers and Fellowships Program for Language and Area or Language: From Univ. Cooperation in Develop.	7,238
84.015 National Resource Centers and Fellowships Program for Language and Area or Language: From Agcy for Intern. Development	56,600
84.016 Undergraduate International Studies and Foreign Language	5,231
84.024 Early Education for Children with Disabilities	59,191
84.029 Special Education - Personnel Development and Parent Training	124,603
84.042 TRIO-Student Support Services	31
84.048 Vocational Education - Basic Grants to States	5,320,240
84.069 State Student Incentives Grants	182,967

State of Montana
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	AMOUNT
84.083 Women's Educational Equity Act Program	100,288
84.086 Special Education-Program for Severely Disabled Children	20,890
84.116 Fund for the Improvement of Postsecondary Education	708,379
84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	9,892,301
84.128 Rehabilitation Services-Service Projects	141,388
84.129 Rehabilitation Long-Term Training	101,577
84.133 National Institute on Disability and Rehabilitation Research	156,937
84.144 Migrant Education - Coordination Program(B): From Illinois Migrant Council	9,541
84.153 Business and International Education	1,627
84.158 Secondary Education and Transitional Services for Youth With Disabilities	152,399
84.162 Immigrant Education	26,815
84.169 Independent Living-State Grants	274,136
84.170 Javits Fellowships	19,364
84.177 Rehabilitation Services-Independent Living Services for Older Individuals/Blind	302,704
84.181 Special Education-Grants for Infants and Families with Disabilities	1,878,520
84.185 Byrd Honors Scholarships	126,750
84.186 Safe and Drug-Free Schools and Communities - State Grants	2,119,642
84.187 Supported Employment Services for Individuals with Severe Disabilities	279,188
84.192 Veterans' Upward Bound: From Other University	15,217
84.194 Bilingual Education Support Services	96,729
84.195 Bilingual Education - Professional Development	906,847
84.196 Education for Homeless Children and Youth	113,802
84.203 Star Schools: From Educational Service District	36,305
84.213 Even Start - State Educational Agencies	892,284
84.215 Fund for Improvement of Education	536,940
84.224 State Grants for Assistive Technology	341,247
84.234 Projects with Industry	79,133
84.235 Special Projects and Demonstrations for Providing Vocational Rehabilitation	578,789
84.243 Tech-Prep Education	454,913
84.256 Freely Associated States - Education Grant Program: From University of California	28,986
84.257 National Institute for Literacy: From Wash. St. Bd to Com. Colleges	3,007
84.264 Rehabilitation Training-Continuing Education	76,074
84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	38,740
84.278 Even Start Indian Tribes and Tribal Organizations: From Oak Ridge Inst. for Sci.	33,282
84.281 Eisenhower Professional Development State Grants	2,009,063

State of Montana
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	AMOUNT
84.287 Twenty-First Century Community Learning Centers	576
84.295L Ready-To-Learn Television: From PBS	30,281
84.298 Innovative Education Program Strategies	1,765,769
84.303 Technology Innovation Challenge Grants	290,781
84.303 Technology Innovation Challenge Grants: From Polson Public Schools	693,176
84.314 Even Start - Statewide Family Literacy Program	91,453
84.318 Technology Literacy Challenge Fund Grants	1,366,775
84.323 Special Education - State Program Improvement Grants for Children with Disabilities	597,139
84.324 Special Education-Research and Innovation to Improve Services and Results for Children	404,649
84.325 Special Education - Personnel Preparation to Improve Services and Results for Children: From Univ. of Colorado	377,889
84.326 Special Education - Technical Assistance and Dissemination to Improve Services and Results	151,834
84.330 Advanced Placement Incentive Program	226,024
84.332 Comprehensive School Reform Demonstration	868,103
84.334 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,280,364
84.335 Child Care Access Means Parents in School	22,118
84.338 Reading Excellence	589,072
84.339 Learning Anytime Anywhere Partnerships: From Kansas State Univ.	195,935
84.340 Class Size Reduction	7,536,687
84.341 Community Technology Centers	186,258
84.342 Preparing Tomorrow's Teachers to Use Technology	2,781,610
84.346 Occupational and Employment Information State Grants	119,310
84.348 Title I Accountability Grants	404,557
84.998 American Printing House for the Blind	3,887
84.999 Miscellaneous Non-Major Grants	37,443
TOTAL	\$78,853,129
 SPECIAL EDUCATION CLUSTER	
84.027 Special Education - Grants to States	17,261,124
84.173 Special Education - Preschool Grants	1,099,445
TOTAL	\$18,360,569
 STUDENT FINANCIAL ASSISTANCE CLUSTER	
84.007 Federal Supplemental Educational Opportunity Grants	1,683,617
84.032 Federal Family Education Loans	1,378,753

State of Montana
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AMOUNT

84.033	Federal Work - Study Program	2,078,035
84.038	Federal Capital Contributions	554,064
84.063	Federal Pell Grant Program	29,247,796
84.268	Federal Direct Student Loans	29,434,960
93.364	Nursing Student Loan Program	118,938
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	351,378
TOTAL		\$64,847,541

TRIO CLUSTER

84.042	TRIO-Student Support Services	1,007,431
84.044	TRIO-Talent Search	451,662
84.047	TRIO-Upward Bound	1,691,311
84.066	TRIO-Educational Opportunity Centers	468,144
84.217	McNair Post - Baccalaureate Achievement	205,052
TOTAL		\$3,823,600

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

89.003	National Historical Publications and Records Grants	43,279
TOTAL		\$43,279

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.003	Public Health and Social Services Emergency Fund	5,780
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	19,081
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	44,730
93.043	Special Programs for the Aging-Title III, Part F-DiseasePrevention/Health Promotion Serv	104,003
93.048	Special Programs for Aging-Title IV-Training, Research & Discretionary Projects & Programs	48,841
93.052	Nation Family Caregiver Support Program	636,317
93.103	Food and Drug Administration Research	2,701
93.110	Maternal and Child Health Federal Consolidated Programs	216,775
93.116	Project Grant and Cooperative for Tuberculosis Control Program	171,024
93.127	Emergency Medical Services for Children	242,070
93.130	Primary Care Services-Resource Coordination and Development Primary Care Offices	296,719

State of Montana
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	AMOUNT
93.136 Injury Prevention and Control Research and State and Community Based Programs	55,067
93.150 Projects for Assistance in Transition from Homelessness (PATH)	283,941
93.157 Centers of Excellence	19,560
93.157 Centers of Excellence: From University of Washington	14,470
93.178 Nursing Workforce Diversity	251,775
93.184 Disabilities Prevention	680,022
93.197 Childhood Lead Poisoning Prevention Projects-State and Community	54,506
93.217 Family Planning Services	1,766,016
93.228 Indian Health Service - Health Management Development Program: From Indian Health Service	2,682
93.230 Consolidated Knowledge Development and Application Program	2,206,552
93.234 Traumatic Brain Injury-State Demonstration	70,802
93.235 Abstinence Education	205,976
93.238 Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	87,668
93.241 State Rural Hospital Flexibility Program	719,754
93.251 Universal Newborn Hearing Screening	112,411
93.268 Childhood Immunization Grant	3,564,376
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	2,443,178
93.288 National Health Service Corps Scholarship Program	132,419
93.289 President's Council on Physical Fitness and Sports: From NCAA	(1,553)
93.289 President's Council on Physical Fitness and Sports: From National Youth Sports Prg	70,092
93.375 Minority Biomedical Research Support	146,424
93.556 Family Preservation and Support Services	652,361
93.558 Temporary Assistance for Needy Families (TANF)	45,479,378
93.560 Family Support Payments to States-Assistance Payments	119
93.563 Child Support Enforcement	9,265,075
93.566 Refugee and Entrant Assistance-State Administered Programs	121,803
93.568 Low Income Home Energy Assistance	12,362,821
93.569 Community Services Block Grant	2,978,515
93.571 Community Services Block Grant Discretionary Awards-Community Food and Nutrition	13,708
93.576 Refugee and Entrant Assistance-Discretionary Grants	49,038
93.586 State Court Improvement Program	108,725
93.590 Community-Based Family Resource and Support Grants	136,221

State of Montana
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	AMOUNT
93.597 Grants to States for Access and Visitation Programs	92,217
93.600 Head Start: From Ravalli Co. Headstart	217,516
93.603 Adoption Incentive Payments	150,072
93.612 Native American Programs	30,809
93.630 Developmental Disabilities Basic Support and Advocacy Grants	393,484
93.632 Developmental Disabilities University Affiliated Programs	302,198
93.643 Children's Justice Grants to States	152,728
93.645 Child Welfare Service-State Grant	825,784
93.658 Foster Care Title IV-E	9,863,944
93.659 Adoption Assistance	4,696,777
93.667 Social Services Block Grant	8,791,771
93.669 Child Abuse and Neglect State Grants	90,901
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	600,710
93.674 Independent Living	356,448
93.767 State Children's Insurance Program	12,403,098
93.779 Health Care Financing Research, Demonstrations and Evaluations	128,191
93.822 Health Careers Opportunities Program	888,558
93.822 Health Careers Opportunities Program: From University of Washington	21,082
93.822 Health Careers Opportunities Program: From Washington State Univ.	37,117
93.824 Area Health Education Centers: From University of Washington	69,862
93.847 Diabetes, Endocrinology and Metabolism Research	25,912
93.887 Project Grants for Renovation or Construction of Non-Acute Health Care Facilities	301,006
93.912 Rural Outreach-Rural Network Developmental Program	14,627
93.913 Grants to States for Operation of Offices of Rural Health: From Office of Rural Health	68,908
93.917 HIV Care Formula Grants	853,353
93.919 Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	1,609,358
93.926 Healthy Start Initiative	98,234
93.938 Cooperative Agreements to Support School Health Programs	715,697
93.940 HIV Prevention Activities-Health Department Based	1,367,174
93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	72,212
93.945 Assistance Program for Chronic Disease Prevention	386,262
93.958 Block Grants for Community Mental Health Services	1,250,525
93.959 Block Grants for Prevention and Treatment of Substance Abuse	5,532,631

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AMOUNT

93.970	Health Professions Recruitment Program for Indians	217,354
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	268,483
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	661,914
93.991	Preventive Health and Health Services Block Grant	988,254
93.994	Maternal and Child Health Services Block Grant to the States	2,664,675
93.999	Miscellaneous Non-Major Grants	133,812
93.999	Miscellaneous Non-Major Grants: From Univ. of Washington	29,291
93.999	Miscellaneous Non-Major Grants: From Nat. Asc. of State Aging Units	42,605
93.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	134,269
TOTAL		\$143,391,766

AGING CLUSTER

93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,745,283
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,610,066
TOTAL		\$4,355,349

CHILD CARE CLUSTER

93.575	Child Care and Development Block Grant	18,567,913
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	5,869,818
TOTAL		\$24,437,731

CONSOLIDATED HEALTH CENTES CLUSTER

93.224	Community Health Centers: From Partnership Health Center	59,496
TOTAL		\$59,496

MEDICAID CLUSTER

93.775	State Medicaid Fraud Control Units	418,009
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,566,398
93.778	Medical Assistance Program	424,735,110
TOTAL		\$426,719,517

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	125,693
94.004	Learn and Serve America-School and Community Based Programs: From Corp. for National Service	130,345
94.005	Learn & Serve America-Higher Education	103,630

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AMOUNT

94.006	AmeriCorps	1,848,934
94.007	Planning and Program Development Grants	63,353
94.009	Training and Technical Assistance	89,695
94.013	Volunteers in Service to America: From Corp. for National Service	383,098
	TOTAL	\$2,744,748

SOCIAL SECURITY ADMINISTRATION

96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	61,016
	TOTAL	\$61,016

DISABILITY INSURANCE/SSI CLUSTER

96.001	Social Security - Disability Insurance	4,437,912
	TOTAL	\$4,437,912

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AMOUNT

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

10.001	Agricultural Research-Basic and Applied Research	276,683
10.025	Plant and Animal Disease, Pest Control, and Animal Care	56,769
10.163	Market Protection and Promotion	4,015
10.200	Grants for Agricultural Research, Special Research Grants	2,371,371
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	56,682
10.200	Grants for Agricultural Research, Special Research Grants: From Pacific NW Canola Res.	12,606
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State	9,601
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Univ.	14,430
10.200	Grants for Agricultural Research, Special Research Grants: From Salish Kootenai College	51,131
10.200	Grants for Agricultural Research, Special Research Grants: From University of Washington	30,048
10.200	Grants for Agricultural Research, Special Research Grants: From Washington State Univ.	20,037
10.200	Grants for Agricultural Research, Special Research Grants: From Rutgers University	11,196
10.200	Grants for Agricultural Research, Special Research Grants: From West. Reg. Sus. Ag. Res Prg.	42,894
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,021,817
10.206	Grants for Agricultural Research-Competitive Research Grants	1,190,829
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Wisconsin	8,653
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of California	(1,323)
10.212	Small Business Innovation Research: From Enviro.& Petro. Con.	4,241
10.217	Higher Education Challenge Grants	127,886
10.224	Fund for Rural America-Research, Education, and Extension Activities	(1)
10.224	Fund for Rural America-Research, Education, and Extension Activities: From Univ. of Minnesota	133,779
10.224	Fund for Rural America-Research, Education, and Extension Activities: From Univ. of Idaho	34,034
10.227	1994 Institutions Research Program: From Dull Knife College	35,764
10.250	Agricultural and Rural Economic Research	2,874
10.302	Initiative for Future Agriculture and Food Systems	989,795

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	AMOUNT
10.302 Initiative for Future Agriculture and Food Systems: From Univ. of Wyoming	25,000
10.302 Initiative for Future Agriculture and Food Systems: From US Coop. Ed.& Ext.	13,088
10.302 Initiative for Future Agriculture and Food Systems: From North Dakota State Univ.	55,366
10.302 Initiative for Future Agriculture and Food Systems: From Utah State Univ.	393,321
10.302 Initiative for Future Agriculture and Food Systems: From Colorado State Univ.	2,530
10.302 Initiative for Future Agriculture and Food Systems: From Univ. of California Davis	56,738
10.303 Integrated Programs: From Colorado State Univ.	16,263
10.303 Integrated Programs: From Univ. of California Davis	36,877
10.450 Crop Insurance	73,637
10.500 Cooperative Extension Service	179,543
10.500 Cooperative Extension Service: From MT Grain Growers Assoc.	773
10.500 Cooperative Extension Service: From US Exten. Serv.	22,652
10.500 Cooperative Extension Service: From Fort Peck Com. Col.	4,025
10.500 Cooperative Extension Service: From Utah State Univ.	23,666
10.652 Forestry Research	2,563,845
10.652 Forestry Research: From Nat.Fish & Wild. Found.	6,520
10.652 Forestry Research: From Arthur Carhart	49,166
10.652 Forestry Research: From Ravalli Co. Economic Dev.	19,882
10.652 Forestry Research: From Nat. Fish & Wildlife Fed.	10,000
10.664 Cooperative Forestry Assistance: From MT Weed Control Assoc.	41,442
10.664 Cooperative Forestry Assistance: From Rocky Mtn. Reseach Stat.	17,970
10.902 Soil and Water Conservation	19,385
10.912 Environmental Quality Incentives Program	3,192
10.961 International Agricultural Research Program	28,994
10.963 Scientific and Technical Cooperation	2
10.999 Miscellaneous Non-Major Grants	2,540
10.R&D Miscellaneous Research and Development	228,694
10.R&D Miscellaneous Research and Development: From Kansas State Univ.	28,339
10.R&D Miscellaneous Research and Development: From Rocky Mtn. Reseach Stat.	3,319
10.R&D Miscellaneous Research and Development: From Dull Knife College	(253)
TOTAL	\$11,432,327

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AMOUNT

DEPARTMENT OF COMMERCE

11.110	Trade Development	8
11.112	Export Promotion Market Development Cooperator	45,649
11.303	Economic Development-Technical Assistance	118,186
11.307	Special Economic Development and Adjustment Assistance Program: From Missoula Economic Dev.	31,642
11.420	Coastal Zone Management Estuarine Research Reserves: From Bermuda Bio. Station	(2,995)
11.427	Fisheries Development & Utilization Research	23,675
11.431	Climate and Atmospheric Research	80,081
11.433	Marine Fisheries Initiative	148,507
11.437	Pacific Fisheries Data Program: From Southwest Fisheries Sci. Ctr.	42,236
11.438	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	15,542
11.439	Marine Mammal Data Program	35,356
11.440	Environmental Sciences, Applications, Data, and Education	5,436
11.552	Telecommunications and Information Infrastructure Assistance Program	325,049
11.611	Manufacturing Extension Partnership	503,348
TOTAL		\$1,371,720

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	1,039,242
12.114	Collaborative Research and Development	32,885
12.300	Basic and Applied Scientific Research	2,671,159
12.420	Military Medical Research and Development	81,386
12.431	Basic Scientific Research	306,683
12.630	Basic, Applied, and Advanced Research in Science and Engineering	467,298
12.800	Air Force Defense Research Sciences Program	222,270
12.800	Air Force Defense Research Sciences Program	126,904
12.800	Air Force Defense Research Sciences Program: From Northwest Research	7,841
12.800	Air Force Defense Research Sciences Program: From Laser Photonics	719
12.910	Research and Technology Development	529,069
12.999	West Point Academy: From Idaho Nat. Engin. & Env.	4,657
TOTAL		\$5,490,113

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AMOUNT

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.999	Miscellaneous Non-Major Grants	145,388
	TOTAL	\$145,388

DEPARTMENT OF THE INTERIOR

15.130	Indian Education: Assistance to Schools	52,077
15.219	Wildlife Habitat Management Technical Assistance	(4,379)
15.222	Cooperative Inspection Agreements with States and Tribes	8,068
15.224	Cultural Resource Management	338,227
15.224	Cultural Resource Management: From Ctr for Invasive Plant Mgt	10,935
15.225	Recreation Resource Management	4,994
15.228	Wildland Urban Interface Community and Rural Fire Assistance	40,843
15.252	Abandoned Mine Land Reclamation (AMLR) Program	84,099
15.299	Miscellaneous Non-Major Grants	1,608,588
15.600	Anadromous Fish Conservation	1,673
15.605	Sport Fish Restoration: From Oregon Dept. of FWP	133,428
15.608	Fish and Wildlife Management Assistance	85,812
15.614	Coastal Wetlands Planning, Protection and Restoration Act	14,062
15.617	Wildlife Conservation and Appreciation	66,559
15.699	USDI/Fish & Wildlife Service	119,057
15.805	Assistance to State Water Resources Research Institutes	187,546
15.808	U.S. Geological Survey-Research and Data Acquisition	1,458,775
15.810	National Cooperative Geologic Mapping Program	25,616
15.899	USDI/Geological Survey	10,887
15.904	Historic Preservation Fund Grants-in-Aid	38,325
15.910	National Natural Landmarks Program	149,821
15.912	National Historic Landmark	34,896
15.915	Technical Preservation Services	81,673
15.916	Outdoor Recreation: Acquisition, Development and Planning	34,680
15.919	Urban Park and Recreation Recovery Program	8,817
15.921	Rivers, Trails and Conservation Assistance	24,797
15.975	Research Information	256,000

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15.977	State Partnerships	39,627
15.999	Miscellaneous Non-Major Grants	1,669,573
15.R&D	Miscellaneous Research and Development	18,296

TOTAL	\$6,603,372
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DEPARTMENT OF LABOR

17.248	Employment and Training Research and Development Projects	1
17.251	Native American Employment and Training Programs	55,972

TOTAL	\$55,973
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DEPARTMENT OF STATE

19.401	Educational Exchange - Fulbright/Hayes: From Con. for Inter. Exchange	13,220
19.420	Cooperative Grants: From Nat.Fish & Wild. Found.	18,023
19.999	Miscellaneous Grants	66,237

TOTAL	\$97,480
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DEPARTMENT OF TRANSPORTATION

20.205	Highway Planning and Construction	426,094
20.301	Railroad Safety	25,765
20.505	Federal Transit Technical Studies Grant: From Transportation Research Bd	24,404
20.600	State and Community Highway Safety	218,930
20.701	University Transportation Centers Program	1,889,047

TOTAL	\$2,584,240
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FEDERAL MEDIATION AND CONCILIATION SERVICE

34.001	Labor Mediation and Conciliation	37,542
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TOTAL	\$37,542
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GENERAL SERVICES ADMINISTRATION

39.009	Federal Consumer Information Center: From Dickinson State Univ.	44,291
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TOTAL	\$44,291
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NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program	1,778,854
43.001	Aerospace Education Services Program: From Salish Kootenai College	2,129
43.001	Aerospace Education Services Program: From Univ. of North Dakota	118,998

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	AMOUNT
43.001 Aerospace Education Services Program: From Scientific Materials	11,247
43.001 Aerospace Education Services Program: From Univ. of Calif.-Berkeley	248,154
43.001 Aerospace Education Services Program: From Lockheed Martin	169,935
43.001 Aerospace Education Services Program: From NASA	54,940
43.001 Aerospace Education Services Program: From Calif. Inst. of Tech.	(4)
43.001 Aerospace Education Services Program: From Thermal Biology Institute	18,297
43.001 Aerospace Education Services Program: From University of Washington	6,142
43.001 Aerospace Education Services Program: From Pacific NW Nat. Lab.	87
43.001 Aerospace Education Services Program: From MT Space Grant Cons.	110,912
43.001 Aerospace Education Services Program: From North Carolina State Univ.	(2,201)
43.002 Technology Transfer	1,644,606
43.002 Technology Transfer: From Univ. of Wyoming	794
43.002 Technology Transfer: From Carnegie Institution of Wash.	20,694
43.002 Technology Transfer: From Goddard Space Flight Ctr	245,312
43.002 Technology Transfer: From LBJ Space Center	126,117
43.002 Technology Transfer: From Lockheed Martin	10,898
43.999 Miscellaneous Non-Major Grants	3,074,291
43.999 Miscellaneous Non-Major Grants: From Univ. of N. Dakota	177,553
43.999 Miscellaneous Non-Major Grants: From California State Univ.	54,796
43.999 Miscellaneous Non-Major Grants: From Calif. Inst. of Tech.	23,950
43.999 Miscellaneous Non-Major Grants: From Salish Kootenai College	(2,434)
43.999 Miscellaneous Non-Major Grants: From Univ. of Idaho	401,061
43.999 Miscellaneous Non-Major Grants: From Umatilla Tribe	3,309
43.999 Miscellaneous Non-Major Grants: From Lockheed Martin	423,210
43.999 Miscellaneous Non-Major Grants: From Univ. of North Dakota	76,848
43.999 Miscellaneous Non-Major Grants: From Virginia Tech	8,919
43.999 Miscellaneous Non-Major Grants: From Search for Intell. Inst.	1,266
43.R&D Miscellaneous Research and Development: From Lockheed Martin	(699)
TOTAL	\$8,807,981

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

45.149 Promotion of the Humanities Division of Preservation and Access	50,908
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		AMOUNT
		TOTAL
		\$50,908
NATIONAL SCIENCE FOUNDATION		
47.041	Engineering Grants	588,899
47.049	Mathematical and Physical Sciences	1,594,683
47.049	Mathematical and Physical Sciences: From Univ. of Missouri	157,550
47.049	Mathematical and Physical Sciences: From Skidaway Inst. of Ocean.	3,270
47.049	Mathematical and Physical Sciences: From Univ. of Mass.	18,039
47.049	Mathematical and Physical Sciences: From Temple University	(2,741)
47.050	Geosciences	720,494
47.050	Geosciences: From Ohio University	90,574
47.070	Computer and Information Science and Engineering	139,919
47.074	Biological Sciences	2,834,636
47.074	Biological Sciences: From Colorado State	79,508
47.074	Biological Sciences: From N. Carolina State Univ.	(92)
47.074	Biological Sciences: From Univ. of Calif.-Santa Barbara	152,432
47.074	Biological Sciences: From Univ. of San Diego	49,727
47.075	Social, Behavioral, and Economic Sciences	339,001
47.076	Education and Human Resources	3,583,909
47.076	Education and Human Resources: From Univ. of Kentucky	745
47.076	Education and Human Resources: From Univ. Corp. Atmospheric Res.	1,662
47.076	Education and Human Resources: From Trans West Tech Inc.	1,200
47.077	Academic Research Infrastructure	57,099
47.078	Polar Programs	291,445
		TOTAL
		\$10,701,959
ENVIRONMENTAL PROTECTION AGENCY		
66.009	Air Information Center: From University of Texas	109,379
66.454	Water Quality Management Planning	15,637
66.456	National Estuary Program	196,454
66.460	Nonpoint Source Implementation Grants	483,787
66.460	Nonpoint Source Implementation Grants: From Powell County	(2,328)
66.460	Nonpoint Source Implementation Grants: From Big Horn Cons. District	5,564

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		AMOUNT
66.460	Nonpoint Source Implementation Grants: From Hill Co. Cons. District	388
66.460	Nonpoint Source Implementation Grants: From Teton Co. Cons. District	(3,546)
66.500	Environmental Protection: Consolidated Research	1,360,990
66.500	Environmental Protection: Consolidated Research: From Harvard College	21,671
66.500	Environmental Protection: Consolidated Research: From Michigan State U.	25,582
66.500	Environmental Protection: Consolidated Research: From Kansas State Univ.	51,104
66.502	Pesticides Control Research	107,703
66.600	Environmental Protection Consolidated Grants Program : From Nothern Cheyene Tribe	13,023
66.606	Surveys, Studies, Investigations and Special Purpose Grants	1,034,939
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Powder River Co. Cons.	1,113
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Rosebud Cons. District	6,035
66.607	Training and Fellowships for the Environmental Protection Agency	55,603
66.708	Pollution Prevention Grants Program	32,828
66.711	Environmental Justice through Pollution Prevention Grants	45,963
66.802	Superfund State Site - Specific Cooperative Agreements: From CDM Fed	288,162
66.802	Superfund State Site - Specific Cooperative Agreements: From CH2M Hill	71,941
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites	2,718
66.808	Solid Waste Management Assistance	5,541
66.999	Miscellaneous Non-Major Grants	15,114
66.R&D	Miscellaneous Research and Development	1,384
	TOTAL	\$3,946,749

DEPARTMENT OF ENERGY

81.004	University Laboratory Cooperative Program: From Los Alamos Nat. Lab	334,156
81.022	Used Energy-Related Laboratory Equipment Grants: From MSE Inc.	10,982
81.041	State Energy Program	34,107
81.049	Office of Energy Research Financial Assistance Program	548,428
81.049	Office of Energy Research Financial Assistance Program: From Inland NW Research	6,343
81.049	Office of Energy Research Financial Assistance Program: From Bonneville Power	78,675
81.049	Office of Energy Research Financial Assistance Program: From Princeton University	85,480

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81.049	Office of Energy Research Financial Assistance Program: From UT - Battele LLC.	30,526
81.049	Office of Energy Research Financial Assistance Program: From Sandia Corporation	29,108
81.049	Office of Energy Research Financial Assistance Program: From Washington State Univ.	41,014
81.049	Office of Energy Research Financial Assistance Program: From Inland Northance	42,994
81.049	Office of Energy Research Financial Assistance Program: From University of Hawaii	(1,120)
81.064	Office of Scientific and Technical Information	3,507
81.079	Regional Biomass Energy Programs	89,353
81.081	Energy Task Force for the Urban Consotium	2,557
81.087	Renewable Energy Research and Development	354,700
81.089	Fossil Energy Research and Development	119,289
81.104	Technology Development for Environmental Management: From Mountain State Energy	243,366
81.119	State Energy Program Special Projects	67,195
81.999	Miscellaneous Non-Major Grants: From ADVR Inc.	70,319
81.R&D	Miscellaneous Research and Development	154,809
81.R&D	Miscellaneous Research and Development: From Los Alamos Nat. Lab	(331)
81.R&D	Miscellaneous Research and Development: From Univ. of Wisconsin-Madison	(3)
81.R&D	Miscellaneous Research and Development: From Bechtel BWXT Idaho	33,437
TOTAL		\$2,378,891

DEPARTMENT OF EDUCATION

84.023	Innovation and Development	244,628
84.042	TRIO-Student Support Services	336,364
84.116	Fund for the Improvement of Postsecondary Education	23
84.133	National Institute on Disability and Rehabilitation Research	604,814
84.153	Business and International Education	35
84.295	Ready-To-Learn Television: From Rocky Mtn. Reseach Stat.	17,943
84.R&D	Miscellaneous Research and Development: From Sandia Labortories	18,309
93.647	Social Services Research and Demonstration	205,355
TOTAL		\$1,427,471

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AMOUNT

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.103	Food and Drug Administration Research	32,652
93.113	Biological Response to Environmental Health Hazards	792,093
93.115	Biometry and Risk Estimation Health Risks from Environmental Exposures	5,421
93.121	Oral Diseases and Disorders Research	259,958
93.121	Oral Diseases and Disorders Research: From Univ. of Georgia	39,600
93.121	Oral Diseases and Disorders Research: From Washington State Univ.	20,667
93.136	Injury Prevention and Control Research and State and Community Based Programs	35,488
93.173	Research Related to Deafness and Communication Disorders	42,277
93.173	Research Related to Deafness and Communication Disorders: From University of Texas	25,553
93.173	Research Related to Deafness and Communication Disorders: From Alleghany Singer Res. Inst.	194,090
93.173	Research Related to Deafness and Communication Disorders: From Nat. Inst. of Health	39,375
93.173	Research Related to Deafness and Communication Disorders: From Univ. of San Diago	24,419
93.206	Human Health Studies Applied Research and Development: From Assc. for Ocup. & Env. Clinic	(31)
93.213	Research and Training in Complementary and Alternative Medicine	59,359
93.226	Health Care Systems Cost and Access Research and Development Grants	35,928
93.242	Mental Health Research Grants: From Behavior Tech Transfer	838,338
93.247	Advanced Education Nursing Grant Program: From Oregon Heaty	82,380
93.273	Alcohol Research Programs	64,048
93.279	Drug Abuse Research Programs	21,786
93.282	Mental Health National Research Service Awards for Research Training	(194)
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	150,331
93.358	Professional Nurse Traineeships	34,670
93.360	General Medical Sciences	20,654
93.361	Nursing Research	333,143
93.361	Nursing Research: From John Hopkins Univ.	7,976
93.361	Nursing Research: From University of Vermont	(24)
93.371	Biomedical Technology	95,337
93.371	Biomedical Technology: From Surmodics. Inc.	19,810

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	AMOUNT
93.371 Biomedical Technology: From Sequoia Scientific Inc.	59,235
93.389 Research Infrastructure	2,136,359
93.390 Academic Research Enhancement Award	40,040
93.395 Cancer Treatment Research	394,172
93.779 Health Care Financing Research, Demonstrations and Evaluations	181,122
93.821 Cell Biology and Biophysics Research	532,234
93.837 Heart and Vascular Diseases Research	(991)
93.838 Lung Diseases Research	590,795
93.839 Blood Diseases and Resources Research	355,944
93.846 Arthritis, Musculoskeletal and Skin Diseases Research	15,451
93.849 Kidney Diseases, Urology and Hematology Research	245,480
93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders	169,997
93.854 Biological Basis Research in the Neurosciences	510,912
93.855 Allergy, Immunology and Transplantation Research	642,623
93.856 Microbiology and Infectious Diseases Research	2,411,731
93.856 Microbiology and Infectious Diseases Research: From Cornell	66,008
93.856 Microbiology and Infectious Diseases Research: From Harbor-UCLA Ins.	228,669
93.856 Microbiology and Infectious Diseases Research: From Wash. Univ. -St. Louis	1
93.859 Pharmacology, Physiology, and Biological Chemistry Research	1,099,044
93.862 Genetics and Developmental Biology Research	299,735
93.864 Population Research	62,964
93.865 Center for Research for Mothers and Children: From Georgia State Univ.	114,632
93.867 Vision Research	177,499
93.894 Resource and Manpower Development in the Environmental Health Sciences	42,021
93.905 Indian Health Service Research: From Indian Health Service	366
93.906 Rural Health Medical Education Demonstration Projects	46,948
93.912 Rural Outreach-Rural Network Developmental Program	1,760
93.922 Minority Apprenticeship Program	(750)
93.960 Special Minority Initiatives	83,855
93.999 Miscellaneous Non-Major Grants	16,732
93.R&D Miscellaneous Research and Development: From Univ. of South Dakota	705,668
TOTAL	\$14,505,360

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2002

AMOUNT

SOCIAL SECURITY ADMINISTRATION

96.007 Social Security Research and Demonstration

20,302

TOTAL

\$20,302

OTHER FEDERAL

99.R&D Miscellaneous: From Univ. of Hawaii Manoa

158,696

TOTAL

\$158,696

TOTAL RESEARCH AND DEVELOPMENT CLUSTER

\$69,860,763

TOTAL EXPENDITURES OF FEDERAL AWARDS

\$1,555,826,407

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the state of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2002, Montana distributed \$432,370 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$7,040,644 in commodities in fiscal year 2002. The value at June 30, 2002 of commodities stored at the state's warehouse is \$2,341,362 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2002 in the Water Pollution Control Revolving Fund Program is \$69,695,324.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2002. The amount of loans outstanding for the program as of June 30, 2002 is \$40,591,747.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2002 is \$522,620.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$110,706,539 in new loans for the Federal Family Education Loans (CFDA #84.032) program during fiscal year 2002. The outstanding loan balance (including principle, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was \$58,715,456 at June 30, 2002. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in fiscal year 2002 of \$19,615,028 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2002. The amount of loans outstanding as of June 30, 2002 is \$28,845,395.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.364) as of June 30, 2002 is \$1,481,332.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2002. The state used the CDC price list to calculate the value of doses received. During fiscal year 2002, Montana received 252,742 vaccine doses valued at \$2,643,882.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount presented for the Tongue River Rehabilitation Loan (CFDA 15.199) represents the amount of tribal loan funds expended on project costs during fiscal year 2002. The amount of the loan outstanding as of June 30, 2002 is \$10,430,769.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$9,723,984 for the biennial period.

Note 3. CFDA

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY 02 Amount</u>	<u>Inventory</u>
10.664	Cooperative Forestry Assistance	\$1,203,640	\$8,001,542
12.999	Miscellaneous Non-Major	0	63,758
47.999	National Science Foundation	0	958,697

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and

Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2002, was \$1,926,526. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a Federal-State partnership. State Unemployment Insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The significant increase in the benefit amount between fiscal year 2001 and 2002 is due to an act signed by the President of the United States on March 9, 2002. The Temporary Emergency Unemployment Compensation Act (TEUCA) provides up to 13 weeks of 100 percent federally financed benefits to qualified individuals in each state. For state fiscal year 2002, the TEUC program benefit payments totaled \$6,559,830 of federal benefit expenditures.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for CFDA #17.225:

UI Administrative Costs	\$ 6,680,962
State UI Funds	72,766,595
Federal UI Funds	<u>11,032,076</u>
Total	\$90,479,633

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2002.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.200	Grants for Agricultural Research, Special Research Grants	194,778
10.206	Grants for Agricultural Research & Competitive Research Grants	26,235
10.500	Cooperative Extension Service	18,415
10.550	Commodities	2,315,912
10.553	School Breakfast Program	3,253,362
10.555	National School Lunch Program	14,636,391
10.556	Special Milk Program for Children	42,997
10.557	Special Supplemental Nutrition Program for WIC	3,889,542
10.558	Child and Adult Care Food Program	9,148,801
10.559	Summer Food Program for Children	531,595
10.561	State Administrative Matching Grants for Food Stamp Program	(300)
10.570	Nutrition Program for the Elderly (Commodities)	878,815
10.572	WIC Farmers' Market Nutrition Program (FMNP)	34,265
10.652	Forestry Research	160,500
10.664	Cooperative Forestry Assistance	449,348
10.665	Schools and Roads-Grants to States	13,474,861
11.609	Measurement and Engineering Research and Standards	473,303
11.612	Advanced Technology Program	353
12.002	Procurement Technical Assistance For Business Firms	196,453
12.300	Basic and Applied Scientific Research	191,527
12.420	Military Medical Research and Development	66,689
12.431	Basic Scientific Research	18,327
12.800	Air Force Defense Research Sciences Program	13,052
12.900	Language Grant Program	17,857
12.910	Research & Technology Development	1,637
14.195	Section 8 Housing Assistance Payments Program Special Allocations	12,229,526
14.228	Community Development Block Grant/State's Program	6,554,451
14.239	Home Investment Partnerships Program	2,993,468
14.246	Community Development Block Grants/Economic Development Initiative	127,460
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	138,205
14.871	Section 8 Housing Choice Vouchers	1,106,445
14.999	Miscellaneous Non-Major Program	92,064
15.299	Miscellaneous Non-Major Grants	(1,407)
15.608	Fish and Wildlife Management Assistance	70,891
15.611	Wildlife Restoration	14,087
15.625	Wildlife Conservation and Restoration	5,000
15.808	U.S. Geological Survey-Research and Data Acquisition	3,010
15.904	Historic Preservation Fund Grants-in-Aid	112,309
15.910	National Natural Landmarks Program	46,641
15.912	National Historic Landmark	74,039
15.915	Technical Preservation Services	675
15.916	Outdoor Recreation-Acquisition, Development and Planning	5,085
15.975	Research Information	32,647
15.999	Miscellaneous Department of the Interior	285,274
16.007	State Domestic Preparedness Equipment Support Program	111,384
16.523	Juvenile Accountability Incentive Block Grants	1,338,296
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	638,206
16.548	Title V Delinquency Prevention Program	89,720
16.549	Part E State Challenge Activities	122,150
16.554	Public Safety Partnership and Community Policing Grants	9,265
16.575	Crime Victim Assistance	1,476,640
16.579	Byrne Formula Grant Program	1,477,875
16.588	Violence Against Women Formula Grant	777,433
16.592	Local Law Enforcement Block Grant Program	185,760
16.710	Public Safety Partnership and Community Policing Grants	31,407
16.727	Enforcing Underage Drinking Laws Program	502,016
17.248	Employment and Training Research and Development Projects	313,120
17.249	Employment Services and Job Training: Pilot and Demo. Programs	2,176,358
17.253	Welfare-to-Work Grants to States and Localities	60,000

CFDA Number	Program Title	Amount Provided To Subrecipient
17.258	WIA Adult Program	3,366,896
17.259	WIA Youth Activities	3,650,104
17.260	WIA Dislocated Workers	9,159,885
19.406	College & University Affiliations Program	138,429
20.005	Boating Safety Financial Assistance	(149)
20.205	Highway Planning and Construction	4,913,536
20.505	Federal Transit Technical Studies Grant	301,124
20.507	Federal Transit Capital and Operating Assistance Formula Grant	1,332,237
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	270,979
20.600	State and Community Highway Safety	546,629
20.701	University Transportation Centers Program	175,191
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	47,315
43.001	Aerospace Education Services Program	37,406
43.002	Technology Transfer	359,807
43.999	Miscellaneous NASA	181,133
45.025	Promotion of the Arts-Partnership Agreements	291,431
45.310	Institute of Museum & Library Services - General Operating Support	234,458
47.041	Engineering Grants	113,560
47.049	Mathematical and Physical Sciences	48,986
47.050	Geosciences	14,233
47.074	Biological Sciences	133,325
47.075	Social, Behavioral, and Economic Sciences	1,359
47.076	Education and Human Resources	313,072
59.037	Small Business Development Center	392,500
66.456	National Estuary Program	144,577
66.708	Pollution Prevention Grants Program	8,500
81.042	Weatherization Assistance for Low-Income Persons	5,500
81.049	Office of Science Financial Assistance Program	41,979
81.066	Conservation Research and Development	1,425
81.104	Technology Development for Environmental Management	27,500
81.999	Miscellaneous Non-Major Grants	17,500
83.544	Public Assistance Grants	2,087,761
83.548	Hazard Mitigation Grant Program	328,366
83.552	Emergency Management Performance Grants	514,607
84.002	Adult Education-State Grant Program	1,068,077
84.010	Title I Grants to Local Educational Agencies	26,881,050
84.011	Migrant Education-Basic State Grant Program	640,631
84.013	Title I Program for Neglected and Delinquent Children	99,284
84.024	Early Education for Children with Disabilities	8,156
84.027	Special Education - Grants to States	16,036,654
84.048	Vocational Education - Basic Grants to States	3,591,612
84.069	State Student Incentive Grants	130,880
84.133	National Institute on Disability and Rehabilitation Research	59,942
84.162	Immigrant Education	26,701
84.173	Special Education - Preschool Grants	1,057,805
84.186	Safe & Drug Free Schools and Communities - State Grants	1,924,833
84.196	Education for Homeless Children and Youth	53,703
84.213	Even Start - State Educational Agencies	838,513
84.215	Fund for the Improvement of Education	125,259
84.235	Special Projects & Demonstrations for Providing Vocation Rehab Services	99,984
84.243	Tech-Prep Education	368,922
84.264	Rehabilitation Training-Continuing Education	24,998
84.281	Eisenhower Professional Development State Grants	1,550,970
84.298	Innovative Education Program Strategies	1,574,906
84.303	Technology Innovation Challenge Grants	25,000
84.314	Even Start-Statewide Family Literacy Program	76,000
84.318	Technology Literacy Challenge Fund Grants	1,272,819
84.323	Special Education-State Program Improvement Grants for Children with Disabil	74,000
84.324	Special Education-Research and Innovation to Improve Services and Results f	91,012

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
84.330	Advanced Placement Incentive Program	158,174
84.332	Comprehensive School Reform Demonstration	821,023
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,141,829
84.338	Reading Excellence	518,092
84.340	Class Size Reduction	7,536,687
84.342	Preparing Tomorrow's Teachers to Use Technology	1,955,177
84.348	Title I Accountability Grants	404,557
93.041	Special Programs for the Aging - Title VII, Chapter 3: Prevention	18,725
93.042	Special Programs for the Aging - Title VII, Chapter 2: Long Term Care	44,730
93.043	Special Programs for the Aging - Title III, Part F: Disease Prevention	104,003
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,386,607
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,423,138
93.048	Special Programs for the Aging - Title IV: Training, Research	48,330
93.052	Nation Family Caregiver Support Program	610,958
93.110	Maternal and Child Health Federal Consolidated Programs	120,995
93.113	Biological Response to Environmental Health Hazards	100,000
93.150	Projects for Assistance in Transition from Homelessness (PATH)	278,886
93.184	Disabilities Prevention	20,838
93.217	Family Planning Services	1,303,024
93.230	Consolidated Knowledge Development and Application (KD&A) Program	2,332,357
93.235	Abstinence Education	17,824
93.241	State Rural Hospital Flexibility Program	370,595
93.389	Research Infrastructure	231,784
93.556	Family Preservation and Support Services	51,323
93.558	Temporary Assistance for Needy Families (TANF)	559,935
93.566	Refugee and Entrant Assistance-State Administered Programs	79,415
93.575	Child Care and Development Block Grant	3,659,812
93.576	Refugee and Entrant Assistance-Discretionary Grants	49,038
93.590	Community-Based Family Resource and Support Grants	125,090
93.600	Head Start	177,357
93.658	Foster Care Title IV-E	1,773,298
93.659	Adoption Assistance	120,800
93.669	Child Abuse and Neglect State Grants	1,872
93.671	Family Violence Prevention and Services/Grants for Battered Women	582,491
93.674	Independent Living	249,032
93.767	State Children's Insurance Program	834
93.778	Medical Assistance Program	7,392
93.779	Health Care Financing Research, Demonstrations, and Evaluations	124,239
93.821	Cell Biology and Biophysics Research	33,351
93.822	Health Careers Opportunities Program	337,682
93.854	Biological Basis Research in the Neurosciences	3,175
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical	75,778
93.926	Healthy Start Initiative	31,371
93.940	HIV Prevention Activities-Health Department Based	39,076
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,399,559
93.991	Preventive Health and Health Services Block Grant	125,975
93.994	Maternal and Child Health Services Block Grant to the States	1,138,736
93.999	General	8,226
94.004	Learn and Serve America - School and Community Based Program	42,607
94.005	Learn and Serve America - Higher Education	6,095
94.006	Americorps	1,316,797
96.007	Social Security Research and Demonstration	11,440
	Total	207,217,217

Auditor's Report & Findings

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LEGISLATIVE AUDIT DIVISION

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Legislative Audit Committee
of the Montana State Legislature:

Compliance

We have audited the compliance of the state of Montana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal years ended June 30, 2002, and June 30, 2003. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the state of Montana's compliance with those requirements.

In our opinion, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal years ended June 30, 2002, and June 30, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: #2-1, #2-2, #2-4, #2-5, #2-6, #2-7, #2-9, #2-10, #2-11, #2-13, #2-17, #2-18, #2-20, #2-21, #2-22, #2-32, #2-33, and #2-34.

Internal Control Over Compliance

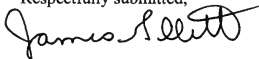
The management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the state of Montana's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: #2-3, #2-8, #2-12, #2-14, #2-15, #2-16, #2-19, #2-23, #2-24, #2-25, #2-26, #2-27, #2-28, #2-29, #2-30, #2-31, and #2-35.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

February 6, 2004

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section I – Summary of Auditor's Results

Basic Financial Statements
For Each of the Fiscal Years 2002 and 2003

	2002	2003
Type of auditor's report issued:	Unqualified	Unqualified
Internal control over financial reporting:		
• Material weakness(es) identified?	No	No
• Reportable condition(s) identified that are not considered to be a material weakness?	Yes	No
Noncompliance material to the financial statements noted?	No	No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	No	No
• Reportable condition(s) identified that are not considered to be a material weakness?	Yes	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes	Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551 & 10.561	Food Stamp Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Woman, Infants, and Children
10.558	Child and Adult Care Food Program
10.665 & 10.666	Schools & Roads Cluster
10.664	Cooperative Forestry Assistance
12.400	Military Construction, National Guard
12.401	National Guard Military Operations & Maintenance Projects
14.182, 14.195, 14.856	Section 8 Project-Based Cluster
14.228	Community Development Block Grant/State's Program
14.871	Section 8 Housing Choice Vouchers

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section I – Summary of Auditor’s Results

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.605 & 15.611	Fish & Wildlife Cluster
17.207, 17.801, & 17.804	Employment Service Cluster
17.225	Unemployment Insurance
17.258, 17.259, 17.260	Work Force Investment Act Cluster
20.205 & 23.003	Highway Planning and Construction Cluster
66.458	Capitalization Grant for State Revolving Fund
66.468	Capitalization Grants for Drinking Water State Revolving Fund
83.542	Fire Suppression Assistance
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.108, 93.342, 93.364, 93.820, 93.925	Financial Aid Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster
84.048	Vocational Education – Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.283	Center for Disease Control and Prevention Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.575 & 93.596	Child Care Cluster
93.658	Foster Care – Title IV-E
93.667	Social Services Block Grant
93.775, 93.777, & 93.778	Medicaid Cluster
93.767	State Children’s Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
R & D Various	R & D Cluster

Dollar threshold used to distinguish
between Type A and Type B programs: \$9,723,984

Auditee qualified as low-risk auditee? No

State of Montana
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Section II – Financial Statement Findings

Finding 1-1: Various Federal Agencies
CFDA # Various

Criteria: State law, Section 17-1-102(4), MCA, requires that before the accounts are closed at fiscal year-end, agencies shall input all transactions to present the receipt, use, and disposition of all money and property in accordance with generally accepted accounting principles. State law, Section 17-1-111, MCA, also provides the general fiscal duties of the state treasurer include receiving and accounting for all money received and disbursed.

Condition: The Department of Administration (department) is responsible for reconciling activity within all bank accounts for the state of Montana. Since the implementation of the Statewide Accounting, Budgeting, and Human Resources System beginning in fiscal year 2000, the department has been unable to reconcile its bank account activity to the accounting records.

Questioned Costs: No questioned costs identified.

Context: The state of Montana's basic financial statements reported approximately \$156 million in cash deposits at June 30, 2002. The accounting records reconciliation completed as of February 2003 for fiscal year-end 2001-02 noted the accounting system cash balance was higher than the bank by \$197,892. In fiscal year 2001-02, the department was still working with agencies to identify and correct unreconciled items from fiscal years 1999-00, 2000-01, and 2001-02. In fiscal year 2002-03, the department has substantially reconciled the state's cash balances.

Effect: The ability to promptly reconcile bank records to the accounting records is a key control which management needs to ensure the accounting records accurately reflect the cash balances.

Cause: Department personnel have been working to resolve the unreconciled cash balances. They developed a state policy to facilitate the cash reconciliation tool to assist with the process. Both the cash policy and the automated reconciliation tool went into effect on March 3, 2003. Personnel indicated implementation of the cash policy and availability of an automated reconciliation tool will aid in the reconciliation process.

Recommendation: We recommend the department reconcile cash balances on the state's accounting records to the bank records.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-1: U.S. Department of the Interior
CFDA #15.605 Sport Fish Restoration – Fish and Wildlife Cluster
CFDA #15.611 Wildlife Restoration – Fish and Wildlife Cluster

Criteria: OMB Circular A-87, Attachment A, Item C, (1c and e) states for a cost to be allowable the cost has to be consistent with and in compliance with policies, regulations and procedures of the state.

Condition: During fiscal year 2001, the Department of Fish, Wildlife and Parks (department) contracted with various vendors to provide aircraft services for fish and wildlife monitoring purposes. In fiscal year 2001, we found instances where the department was not in compliance with required state procurement policies and procedures when securing aircraft services.

Questioned Costs: We question \$82,200 of federal funds spent on the purchase of aircraft services in fiscal year 2001.

Context: The department represented that there were nineteen vendors providing pilot services in fiscal year 2001, and we tested thirteen of those vendors. We found that five vendors did not have the required documentation for sole source purchasing. In addition, the services of two vendors were secured without a written contract.

Effect: The department was not in compliance with state administrative rules or department policy.

Cause: Personnel said that in some instances field staff contracted directly with pilots for services needed and overlooked requirements for providing sole source justification and securing written contracts. A new property section supervisor identified weaknesses in the procurement process noted above and reinforced existing procedures with field staff.

Recommendation: We recommend the department continue to ensure procedures are followed for contract procurement and monitoring in accordance with state and federal requirements.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-2: U.S Environmental Protection Agency
CFDA # 66.458 Capitalization Grants for Clean Water State Revolving Funds
CFDA # 66.468 Capitalization Grants for Drinking Water State Revolving Funds

Criteria: OMB Circular A-87, Attachment B, Section 11(d)(2), requires compensation for personal services to be equitably allocated to all related activities.

Condition: The Department of Environmental Quality (department) maintains leave pools with two different rates used to fund leave taken by certain employees who accumulate leave while working in state and federal programs. The two leave pools were moved to the department from two former state agencies when state programs were reorganized to form the department. Leave for the majority of department employees is not covered by either of the two leave pools. In our prior audit we recommended the department review its leave pool accounting procedures and ensure the procedures are uniformly and equitably applied.

Questioned Costs: We question leave pool charges amounting to \$46,652 and \$56,213 in fiscal year 2000-01 and 2001-02, respectively.

Context: The department reported \$27,315,901 and \$40,479,933 of federal expenditures in fiscal years 2000-01 and 2001-02, respectively. The department stopped using the leave pool in fiscal year 2002-03.

Effect: For the leave pool costs to be allowed for federal programs, the costs must be uniformly applied to all related activities of the governmental unit. Since the leave pool rates are not consistently applied to all employee leave, the costs are unallowable under federal regulations.

Cause: The department concurred with our prior recommendation. The department has been working with the federal government to develop a department-wide leave pool rate to put in place for fiscal year 2002-03. Progress has been hampered by turnover in the position assigned to this task.

Recommendation: We recommend the department charge its leave costs uniformly and equitably in accordance with federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-3: U.S. Environmental Protective Agency (EPA)
CFDA #66.458 Capitalization Grants for State Revolving Funds
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Funds

Criteria: Federal regulations, 40 CFR 31 and 43 CFR 12, require grantees to file Federal Cash Transactions Reports (SF-272) within 15 days after the end of each calendar quarter and Federal Financial Status Reports (SF-269) no later than 90 calendar days after the end of the reporting period, unless extensions for the reporting due dates are approved by the federal grantor agency.

Condition: The Department of Environmental Quality (department) did not file the SF-272 reports for the state revolving grants for fiscal years 2000-01 and 2001-02. The department requested an exemption from the reporting requirement from the EPA and as of September 2002 the department had not received a response. The EPA annual SF-269 reports for fiscal years 2000-01 and 2001-02, were not submitted until after December 2003. In fiscal year 2002-03, the department submitted all its federal reports as required by federal regulations except for the SF-269 related to the state revolving grants. The department had an extension for the fiscal year 2002-03 annual report until November 30, 2003. However, the report was not filed until January 29, 2004.

Questioned Costs: No questioned costs were identified.

Context: The department reported \$27.3 million, \$40.5 million and \$43.8 million, of federal expenditures during fiscal years 2000-01, 2001-02 and 2002-03, respectively.

Effect: Noncompliance with federal reporting requirements.

Cause: Department personnel indicated they had requested an exemption from the EPA and they were waiting for a response before filing the federal reports. In addition, department personnel cited turnover and other priorities as reasons for these reporting delays.

Recommendation: We recommend the department file Federal Cash Transaction Reports and Financial Status Reports as required by federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-4: U.S. Department of Labor
CFDA #17.207, 17.801, & 17.804 Employment Services Cluster
CFDA #17.225 Unemployment Insurance

Criteria: The March 2002 Compliance Supplement, Section 3-F-1, states when equipment with a current per unit fair market value in excess of \$5,000 is no longer needed for a federal program it may be retained or sold, with the federal agency having a right to a proportionate share of the fair market value.

Condition: The Department of Labor and Industry (department) records buildings and equipment used in its operations on the state's Asset Management system. The asset records must include information as to federal participation in the purchase of assets. We noted several conditions that indicate the department could improve controls over fixed asset transactions: property purchased with federal funds was recorded in a state special revenue fund on the state's Asset Management system, there was no documentation of control procedures that assigned responsibility for meeting federal requirements related to disposal of assets purchased with federal funds; computer equipment had been removed from service, yet accounting records where not adjusted for this removal; and a building had been recorded twice on the accounting records.

Questioned Costs: No questioned costs were identified.

Context: This is a continuing problem with the department for fiscal years 2001 and 2002. In our last audit report, we identified a property disposal where the department did not comply with federal regulations.

Effect: The department is not in compliance with federal regulations.

Cause: The department does not have procedures adequately documented.

Recommendation: We recommend the department assign staff responsibilities for fixed asset accounting to improve controls over fixed asset records.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-5: U.S. Department of Labor
CFDA #17.225 Unemployment Insurance

Criteria: The March 2001 Compliance Supplement Section, 3-L-H, states the ETA 227 reports should be done quarterly.

Condition: Federal regulations require the Department of Labor and Industry (department) to submit various reports on financial activity in programs receiving federal financial assistance. In connection with its unemployment insurance program, the department is required to report overpayment and collection activities quarterly. During our audit, we found the department has been unable to submit the quarterly ETA 227 report.

Questioned Costs: No questioned costs were identified.

Context: The department did not submit the required ETA 227 reports between September 2001 and June 2002.

Effect: The department is not in compliance with federal requirements.

Cause: A department manager said the federal government changed the format of the ETA 227 just as the department put its new benefits system in service. Therefore, the module designed to generate the ETA 227 did not interface with the new form.

Recommendation: We recommend the department prepare and submit its unemployment benefits quarterly ETA 227 report on a timely basis.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-6: U.S. Department of Labor
CFDA #17.207 Employment Services Cluster
CFDA #17.225 Unemployment Insurance

Criteria: OMB Circular A-87, Attachment C, states that federal programs are expected to bear their fair share of allowable costs, and that working capital reserves for internal service funds should be at a reasonable level, defined for the Montana Department of Labor (department) to be an amount of cash sufficient to cover a maximum of 60 days of operating expenses.

Section 17-8-101, MCA, requires fees and charges for services deposited in the internal service fund type to be based on commensurate costs.

Condition: The department operates an Internal Service Fund to accumulate costs directly billed to its programs by its information systems unit. Federal and state regulations allow the department to maintain 60 days of working capital in the account, approximately 17 percent of annual expenditures. When we analyzed the relationship between fiscal year 2001-02 expenditures and fund balance, we found the balance was 82 percent of the expenditures for the year or 301 days.

Questioned Costs: We question \$57,000 in costs.

Context: The Internal Service Fund expenditures for the information systems unit were \$99,000 in fiscal year 2001-02.

Effect: Federal programs contributed funds in excess of the actual cost of services provided.

Cause: A department administrator said the services billed have never been reconciled to actual expenditures incurred.

Recommendation: We recommend the department develop fees commensurate with costs for directly billed information services.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-7: U.S. Department of Labor
CFDA #17.207 Employment Service
CFDA #17.225 Unemployment Insurance

Criteria: Under the terms of the Cash Management Improvement Act (CMIA) agreement between Montana and the U.S. Treasury, the Department of Labor and Industry (department) is directed to request funds weekly on Wednesday based on the amount of actual cash outlays for administrative costs incurred in the previous week. For electronic funds transfers, such as payroll, the department may request funds the day before the disbursement.

Condition: The Employment Service and Unemployment Insurance grants provide financial assistance to administer the department's workforce service offices and unemployment insurance program. Procedures to draw federal cash to cover expenditures of these grants are specified in an agreement between the state and the U.S. Treasury negotiated in compliance with the CMIA. The department does not perform its draws in accordance with the CMIA agreement. The department draws down on a reimbursement basis.

Questioned Costs: No questioned costs were identified.

Context: We inspected department records of cash draws for these two programs during fiscal years 1999-00 and 2000-01. Of 21 Employment Service draws reviewed, 16 were not executed in accordance with the CMIA agreement. There were eight instances where at least a week passed in which no cash draws were made. Of 97 Unemployment Insurance draws reviewed, 67 did not comply with the CMIA agreement.

Effect: The department is not in compliance with the CMIA agreement.

Cause: A department official said the department prepares daily cash balances for the grants, and draws funds when the cash balances are negative. Since there has been turnover in the department's accounting function, accounting management had not reviewed the CMIA agreement to ensure current department practice complied with the agreement. According to department management, department personnel met with the Department of Administration in April 2002 to update the department's understanding of CMIA requirements. Since that time, the department has been complying with the CMIA agreement, the department official said.

Recommendation: We recommend the department follow the Cash Management Improvement Act agreement in drawing federal funds for administrative costs.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-8: U.S. Department of Health and Human Services
CFDA #93.775 State Medicaid Fraud Control Unit

Criteria: OMB A-133 Compliance Supplement, Part 3C, states when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Federal regulations, 31 CFR 205.20, state cash advances shall be limited to the minimum amounts needed and shall be timed to be in accord with the actual immediate cash requirements of the program. The timing and amount of the advances shall be as close as is administratively feasible to the actual cash outlay.

Condition: To finance the Medicaid Fraud Control Unit, the Department of Justice (department) executes cash draws from the federal government on a reimbursement basis. We noted inconsistent cash draws in relation to expenditures for the unit during fiscal years 2001-02 and 2002-03. Some federal cash draws exceeded expenditures while other cash draws were less than actual expenditures. In addition, the draws were not executed as often as allowed.

Questioned Costs: No questioned costs were identified.

Context: The department reported \$418,009 and \$390,965 of expenditures in state Medicaid Fraud Control Unit expenditures in fiscal years 2001-02 and 2002-03, respectively.

Effect: The department is not in compliance with federal cash management regulations.

Cause: Department personnel indicated one fund is used to account for the activity of a variety of federal grants. Therefore, the department is unable to determine the actual cash account balance for the Medicaid Fraud Control Unit at any point in time.

Recommendation: We recommend the department establish procedures to ensure cash draws from the federal government for the Medicaid Fraud Control Unit are executed in accordance with federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
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Section III – Federal Award Findings and Questioned Costs

Finding 2-9: Department of Defense
CFDA #12.400 Military Construction National Guard
CFDA #12.401 National Guard Military Operations and Maintenance Projects

Criteria: OMB Circular A-133 requires entities receiving federal funds to follow provisions of the Cash Management Improvement Act (CMIA) agreement between the state of Montana and the U.S. Treasury for federal assistance programs covered by the agreement. State policy requires the Department of Military Affairs (department) to prepare spreadsheets to track clearance patterns that aid in documenting compliance with the CMIA agreement. Information from the spreadsheets is used by the Department of Administration to determine any federal or state interest liabilities.

Condition: We addressed cash management problems in each of the last three audits of the department. During fiscal year 2001, the Department of Administration requested and received interest payments from the federal government, because the spreadsheet calculations showed the federal government was not reimbursing expenditures in a timely manner. However, subsequent work determined that the calculations were in error. An outside CPA firm identified errors and inconsistencies with the fiscal year 2001 spreadsheet used to track clearance patterns for the Operations and Maintenance program. Their report indicated that the data in the worksheet might be unreliable. In response to the CPA firm's work, the department submitted a revised worksheet.

Questioned Costs: As a result of revisions to the spreadsheet the state may owe approximately \$55,000 back to the federal government.

Context: In fiscal year 2000-01, total federal assistance was \$1.6 million for CFDA #12.400 and \$8.6 million for CFDA #12.401.

Effect: The department is not in compliance with the CMIA agreement.

Cause: During fiscal year 2000-01, employees were inputting bills each day to the accounting system for payment, and this information was used to construct the warrant clearance worksheet. Vouchers requesting reimbursement were prepared weekly, but bills were not always included in that week's reimbursement request. As a result, clearance pattern calculations showed delays in payment, when the voucher for reimbursement had not been submitted.

Recommendation: We recommend the department implement procedures to ensure the CMIA spreadsheets contain accurate information in order to document compliance with the CMIA agreement.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-10: Department of Education
CFDA #84.011Migrant Education – Basic State Grant Program

Criteria: Federal Regulations, 34 CFR 76.700, states a State and a subgrantee shall comply with the State plan and applicable statutes, regulations, and approved applications, and shall use federal funds in accordance with those statutes, regulations, plan and applications. Montana state law, section 2-2-105, MCA, specifically prohibits state employees from acquiring an interest in any business that may receive a direct substantial benefit from official acts performed in their capacity as state employees. Section 2-2-102, MCA, defines “private interest” as a directorship or officership in a business.

Condition: An employee in the Office of Public Instruction (OPI) having oversight responsibility for the Migrant Education Federal Award is also a member of the Board of Directors for a subrecipient receiving a substantial amount of federal funds from OPI.

Questioned Costs: We question \$478,271 of disbursements for CFDA #84.011.

Context: OPI provided \$478,271 in federal funds to Rural Employment Opportunities, Inc. for the two fiscal years ended June 30, 2002. This represents 20 percent of the total expenditures incurred in fiscal year 2001 and 36 percent of the total expenditures incurred in fiscal year 2002 for the federal award.

Effect: OPI is not in compliance with state and federal laws and regulations.

Cause: OPI management reviewed the potential conflict of interest prior to the employee’s involvement with the organization and determined it would not constitute a violation of the code of ethics. However, OPI staff were unable to provide documentation of that decision.

Recommendation: We recommend OPI take immediate appropriate action to eliminate the conflict of interest.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-11: U.S. Department of Labor
CFDA #17.225 Unemployment Insurance

Criteria: The Federal-State Unemployment Insurance (UI) program regulations are found in 20 CFR Parts 601 through 616. Program regulations require the Montana Department of Labor (DOLI) to file various reports, one of which is the ETA 581, *Contributions Operations* (OMB No. 1205-0178) – Quarterly report.

Condition: In the cooperative agreement between the Department of Revenue (department) and DOLI, the department is required to prepare the ETA 581 and submit it to the DOLI by the 15th of the month following the end of each quarter. The ETA 581 is a federally required report concerning UI tax collections. DOLI must then submit the report to U.S. Department of Labor. During the audit for fiscal years 1999 and 2000, we found that the department was unable to prepare the report in the time period required in the agreement because the department did not have the information required for the report. In the audit for fiscal years 2001 and 2002, we found that although the department is now able to prepare the report, none of eight quarterly reports prepared during the audit period were submitted within the 15-day time established in the agreement. The first two quarterly reports submitted in fiscal year 2003 were also late.

Questioned Costs: No questioned costs were identified.

Context: The eight quarterly reports for fiscal year 2001 and 2002 ranged from sixteen months to one month late. For the quarters ended March 31 and June 30, 2003, the ETA reports were submitted three and ten days after the 15-day requirement, respectively.

Effect: The department is not in compliance with federal regulations and the cooperative agreement with DOLI.

Cause: Department personnel said that because of the problems with the information necessary to prepare the reports, department personnel had to spend considerable time validating the data before the report could be submitted.

Recommendation: We recommend the department comply with UI tax reporting requirements contained in its contract with DOLI.

State of Montana
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Section III - Federal Award Findings and Questioned Costs

Finding 2-12: U.S. Department of Labor
CFDA #17.225 Unemployment Insurance

Criteria: The computation of the employer's annual Unemployment Insurance (UI) tax rate is based on State Unemployment Insurance laws (26 USC Section 3303). State law, section 39-51-1219, MCA requires that experience factors used to calculate the UI rate be applied in certain situations to successor employers.

Condition: The Department of Revenue's (department) computer system used to calculate UI rates for calendar years 2001 and 2002 did not properly transfer the experience rating from previous employers to successor employers. In October 2002, department personnel began reconciling data errors and taxpayer errors in the computer system. The reconciliation process was fully implemented in February 2003. As of August 2003, there were approximately 3500 accounts out of balance with all reviews scheduled to be completed by December 15, 2003. In 2003, the department generated 3,778 penalty rate notices and, after initial review, the number sent to employers was reduced to 3,100.

In a 'dition, we found the department did not have an adequate control system to determine whether manual changes made to UI rates were appropriate during calendar year 2001. According to department personnel, some of the rate changes for calendar year 2002 were reviewed by an employee; however, that employee's rate changes were not reviewed. No documentation of manual rate adjustments was available to ensure rate changes were correct and appropriate. In April 2002, the department began using, and continues to use, worksheets to document questions and follow-up related to employer rates.

Questioned Costs: No questioned costs were identified.

Context: The department calculated an UI tax rate for approximately 35,000 employers for calendar years 2001 and 2002. Of these 35,000, 925 employers were identified in the population of employers whose rates may not have been calculated correctly.

Effect: The department may have provided an incorrect UI tax rate to approximately 925 employers for calendar years 2001 and 2002. Without proper documentation and supervisory reviews, controls are not adequate to ensure manual changes to UI rates are appropriate.

Cause: Department personnel said the computer system used to calculate the rates did not properly transfer experience factors for successor employers.

Recommendation: We recommend the department:

- A. Accurately calculate UI rates as required by state law.
- B. Establish controls over UI rate inquiries and adjustments.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-13: U.S. Department of Education
CFDA #Various – Research and Development Cluster

Criteria: Federal regulations in OMB Circular A-21 require that recipients of federal funds keep documentation to support the propriety of all costs charged to federal programs. They also require that costs charged to federal programs be reasonable and allocable to the program.

Condition: For the audit covering the two fiscal years ended June 30, 2001, we recommended the university adequately support leave pool rates used for its MT-Tech of the University of Montana leave pool as required by federal regulations. This is a prior audit finding and the university has not fully implemented the prior recommendation.

Questioned Costs: We question charges to grants and contracts (revenue to the leave pool) of \$163,503 in fiscal year 2000-01.

Context: We reviewed the adequacy of leave pool rate support for fiscal years 2000-01. MT Tech of the UofM reported \$4.9 million in federal expenditures in fiscal year 2000-01.

Effect: MT Tech of the UofM is not in compliance with federal cost allowability requirements.

Cause: Campus personnel calculated leave pool rates for a sample of employees using different assumptions regarding sick leave usage. However, the rates being charged to the universities grants and contracts were between the rates calculated, so personnel believed the rates were adequately supported.

Recommendation: We recommend MT Tech of the UofM charge adequately supported leave amounts for its leave pool as required by federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-14: U.S. Department of Agriculture
CFDA #10.557 Special Supplemental Nutrition Program for
Women, Infants and Children (WIC)

Criteria: The Department of Public Health and Human Services (department) contracts with 43 local agencies to administer the WIC program. Federal regulations, 7 CFR 246.19, specify that the state agency shall conduct monitoring reviews of each local agency at least once every two years, and shall promptly notify any local agencies of findings of non-compliance with program requirements identified in monitoring review.

Condition: From July 1, 2001 to March of 2003, the department canceled 9 of its 35 scheduled monitoring visits to local agencies. These monitoring visits were rescheduled for fiscal years 2002-03 and 2003-04. By canceling these visits, the state failed to complete a monitoring of each local agency once every two years. For the 26 monitoring visits completed by department staff, we noted 11 reports were completed, three reports were in process, nine reports were not completed and sent to the local agencies for corrective action, one report with findings was not completed accurately and, therefore, the local agency did not complete any follow-up, and two reports with findings were completed, but the department did not approve any corrective action by the local agencies.

Questioned Costs: No questioned costs were identified.

Context: A total of 35 local agencies should have been monitored from July 1, 2001 to March 31, 2003.

Effect: The department did not comply with federal subrecipient monitoring requirements.

Cause: The department attributed this non-compliance to staff turnover in the WIC program. Several people tried to cover two jobs at one time. In addition, a department manager said the department decided to make implementation of new federal regulations relating to the retail operations a higher priority than monitoring some of the agencies.

Recommendation: We recommend the department complete monitoring visits and the associated reports in accordance with federal regulations.

State of Montana
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Section III - Federal Award Findings and Questioned Costs

Finding 2-15: U.S. Department of Agriculture
CFDA #10.557 Supplemental Nutrition Program for Women,
Infants and Children (WIC)

Criteria: Federal regulations, 7 CFR 264.12, require the Department of Public Health and Human Services (department) to account for the disposition of all WIC vouchers as either issued or voided and, when issued, as either redeemed or unredeemed.

Condition: Participants in the WIC program are issued vouchers that are redeemable for specific food items at participating stores. The WIC computer system generates an edit report that includes information regarding vouchers that have been redeemed prior to an attempt to void the voucher. For vouchers voided or reissued, the department requires each local agency to submit a void/reissue receipt. This document informs the department of why vouchers were voided and reissued. To complete the procedure, department personnel match the reasons with the identified voids on a daily report and follow up on any instances that do not appear reasonable. With this procedure, the department can detect cases giving the client benefits in excess of those allowable. In the 12 months from April 2002 to March 2003, department personnel did not investigate any differences between the receipts submitted and the activity reported by local agencies.

Questioned Costs: No questioned costs were identified.

Context: The department expended \$12.4 million and \$13.8 million in fiscal years 2002-03 and 2001-02, respectively.

Effect: Vouchers could have been reissued to clients without the initial issuances being voided and the dual issuance would not have been detected.

Cause: A department program manager stated that the program was understaffed in the two-year audit period for reasons including staff on medical leave and a hiring freeze. For some of the instances, department personnel thought they may have looked at the documentation, decided that nothing was wrong, and then discarded the evidence of their review.

Recommendation: We recommend the department complete and document daily review of WIC voucher activity.

State of Montana
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Section III - Federal Award Findings and Questioned Costs

Finding 2-16: U.S. Department of Agriculture
CFDA # 10.557 Special Supplemental Nutrition Program
for Women, Infants and Children (WIC)

Criteria: Federal regulations, 7 CFR 246.7, require the Department of Public Health and Human Services (department) prevent participants from receiving WIC benefits more than once per month.

Condition: To implement this requirement, existing department procedures specify that the department will prepare a report from its records monthly to identify clients certified to participate more than once in WIC in that month. The department did not consistently review this report.

Questioned Costs: No questioned costs were identified.

Context: In one 12-month period, the department ran and reviewed this report twice in the month following the WIC activity, completed the review for an additional four months after the time the review could have identified and prevented dual participation, and did not review the report for six months.

Effect: The department did not comply with the federal requirement to identify dual participation. By not reviewing activity reports, the department raises the risk that dual participation will not be detected quickly, thereby allowing additional unallowable costs.

Cause: A department manager stated that the position responsible for reviewing the report was vacant for several months.

Recommendation: We recommend the department run and review its WIC dual certification report monthly to ensure prevention of dual participation by clients.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-17: U.S. Department of Education
CFDA #84.126 Rehabilitation Services – Vocational Rehabilitation
Grants to States

Criteria: Federal regulations require the Department of Public Health and Human Services (department) submit a RSA-2 Program Cost Report for the Vocational Rehabilitation Services Program for each federal fiscal year.

Condition: The RSA-2 Program Cost Report shows all expenditures made during the period, including expenditures charged to federal funds carried over from the previous fiscal year. For purposes of preparing this report, expenditures include unliquidated obligations. We noted that the federal fiscal year 2002 RSA-2 Program Cost Report was submitted with five line items reporting numbers from the federal fiscal year 2001 report. The errors totaled \$164,075 and netted to a \$56,659 overstatement of costs.

Questioned Costs: No questioned costs were identified.

Context: The department expended \$9,892,944 and \$9,698,413 for the Vocational Rehabilitation Services Program in fiscal year 2001-02 and 2002-03, respectively.

Effect: The department is not in compliance with federal reporting requirements.

Cause: Department personnel said the previous year's numbers were reported in error.

Recommendation: We recommend the department ensure the RSA-2 Program Cost Report includes only costs related to the period covered by the report.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-18: U.S. Department of Education
CFDA #84.126 Rehabilitation Services – Vocational Rehabilitation
Grants to States

Criteria: Federal regulations, 34 CFR 361.64(b), state the vocational rehabilitation grant for each federal fiscal year must be obligated in the year of the award and expenditures paid by the end of the subsequent year. Federal regulations, 34 CFR 76.707, indicate if an obligation is for personal services by an employee of the state or subgrantee, the obligation is made when the services are performed.

Condition: The Department of Public Health and Human Services (department) charged payroll expenditures to the federal fiscal year 2002 (October 1, 2001 through September 30, 2002) Vocational Rehabilitation Services Program grant as late as the pay period ending February 21, 2003.

Questioned Costs: We question a total of \$6,568 of payroll expenditures that were charged to the federal fiscal year 2002 grant after the grant period had ended.

Context: The department expended \$9,892,944 and \$9,698,413 for the Rehabilitation Services – Vocational Rehabilitation Grants to States in fiscal year 2001-02 and 2002-03, respectively.

Effect: The department is not in compliance with federal regulations regarding period of availability.

Cause: Department payroll personnel indicated they use payroll codes provided by program accounting personnel until new payroll codes are provided.

Recommendation: We recommend the department charge only payroll costs incurred within the grant period.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-19: U.S. Department of Education
CFDA #84.126 Rehabilitation Services – Vocational Rehabilitation
Grants to States

Criteria: Federal regulations, 34 CFR 361.54, require states that choose to use financial needs tests for one or more types of vocational rehabilitation services to apply those tests to all individuals uniformly.

Condition: Individuals qualify for vocational rehabilitation services if they have a physical or mental impairment that impedes their employment, they have employment capability, and vocational rehabilitation services are required to secure, retain, or regain employment. Clients in Montana must also meet certain financial resource criteria. We tested client files at the Department of Public Health and Human Services (department) for documentation of disability and financial eligibility criteria. The department provided \$15,330 in vocational rehabilitation services to three clients while documentation indicated the individuals had not met financial eligibility requirements.

Questioned Costs: Applying the 80 percent federal participation rate, we question \$12,264 in federal costs in fiscal years 2001-02 and 2002-03.

Context: Of the 74 client files reviewed for eligibility, three clients received services when information in the clients' files indicated they were not financially eligible.

Effect: The department is not in compliance with federal vocational rehabilitation eligibility requirements.

Cause: Department personnel were unsure why these individuals were approved for services.

Recommendation: We recommend the department strengthen procedures to ensure client files document resource eligibility requirements before vocational rehabilitation services are provided.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-20: U.S. Department of Health and Human Services
CFDA #93.959 Block Grant for Prevention and Treatment of
Substance Abuse (SAPT)

Criteria: Federal regulations, 45 CFR 96.134, require the state of Montana to spend state resources on substance abuse prevention and treatment programs as a condition of receiving an allocation of the federal SAPT block grant. To meet the required state expenditure standard, commonly called "maintenance of effort," the Department of Public Health and Human Resources (department) must show that state funds spent in a fiscal year equal or exceed the average of the amounts spent by the state in the preceding two fiscal years.

Condition: We reviewed the level of state expenditure effort reported by the department for state fiscal year 2001-02 in its application for federal fiscal year 2002-03 funding. The state expenditures reported were \$268,563 less than the average expenditures for the two previous fiscal years.

Questioned Costs: We question \$268,563 in SAPT costs for the fiscal year 2002-03.

Context: A federal technical review report discloses shortfalls in state maintenance of effort expenditures in state fiscal years 1998-99 and 1999-00.

Effect: The state is not in compliance with federal maintenance of effort requirements.

Cause: Department management said the maintenance of effort shortfall in state fiscal year 2002 resulted from a reduction in alcohol tax money available for meeting the costs of the Montana Chemical Dependency Center.

Recommendation: We recommend the department maintain state expenditures for substance abuse at the level required by the Substance Abuse Prevention and Treatment grant.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-21: U.S. Department of Health and Human Services
CFDA #93.959 Block Grants for Prevention and Treatment of
Substance Abuse (SAPT)

Criteria: Federal regulations, 45 CFR 96.135(b) and 45 CFR 96.124(b), set certain limits to guide the use of SAPT block grant funds. To comply with these limits, the Department of Public Health and Human Services (department) must spend at least 20 percent of each grant on prevention activities and no more than five percent of each grant on program administration.

Condition: We reviewed the state's accounting records used to track expenditures for various categories of SAPT grant activity. We noted the department expenditures for prevention were \$166,473 less than the 20 percent required for the federal fiscal year 2000-01 grant.

Questioned Costs: Since 20 percent of the grant must be expended on prevention, we question \$724,004, the amount by which total grant expenditures exceeded five times the valid prevention program charges.

Context: In the previous audit, the department did not have adequate cost centers on the state's accounting records to track earmarking requirements.

Effect: The department is not in compliance with federal earmarking requirements.

Cause: The department replaced state alcohol money used to match increased Medicaid services with SAPT block grant funds. Although the department may be able to support some of these costs as client services to SAPT eligible population, support was not generated.

Recommendation: We recommend the department increase prevention activities to meet Substance Abuse Prevention and Treatment grant requirements.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-22: U.S. Department of Health and Human Services
CFDA #93.568 Low Income Home Energy Assistance Program (LIHEAP)

Criteria: The federal government requires that LIHEAP grantees file an annual Financial Status Report on outstanding grants. On this form, the Department of Public Health and Human Services (department) must report the total allotment from the "Notice of LIHEAP Grant Award," the amount expended, and the unobligated balance of federal funds granted. The department has two years to expend each grant.

Condition: We compared four LIHEAP Financial Status Reports to the state's accounting records. On two of the reports, the department reported unobligated balances even though all funds for the grant had been obligated and spent. The department appeared to have not expended the full allotment of grants within the two years for which the allotment was available for expenditure.

Questioned Costs: No questioned costs were identified.

Context: The department completed four reports during fiscal years 2001-02 and 2002-03. Two of those reports showed unobligated amounts when the department had already obligated those amounts through contracts for the next fiscal year.

Effect: The department is not in compliance with federal reporting requirements.

Cause: A department fiscal manager said the errors occurred because the department reported the carry forward balances from the first year as unobligated balances on the final Financial Status Report for the grant.

Recommendation: We recommend the department file Financial Status Reports for Low Income Housing Energy Assistance Program grants using correct expenditure information.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-23: U.S. Department of Health and Human Service
CFDA #93.658 Foster Care – Title IV-E

Criteria: Amendment 6 to the state's Cash Management Improvement Act (CMIA) agreement requires the Department of Public Health and Human Services (department) to transfer weekly from the Foster Care program to the Adoption Assistance program certain amounts drawn for administrative purposes.

Condition: The department draws federal funds through the Title IV-E Foster Care program for administrative expenses for both the Foster Care and the Adoption Assistance programs. The department did not transfer funds to Adoption Assistance as required by the CMIA agreement.

Questioned Costs: No questioned costs were identified.

Context: The department reported Foster Care expenditures of \$12.3 million and \$9.9 million in fiscal years 2002-03 and 2001-02, respectively.

Effect: The department is not in compliance with the CMIA agreement.

Cause: Department personnel assigned to draw federal cash were not aware of the CMIA requirement to transfer Adoption Assistance federal funds.

Recommendation: We recommend the department provide supervisory oversight to ensure personnel make weekly transfers from the Title IV-E Foster Care program to the Adoption Assistance program for administrative expenses in compliance with the federal cash management agreement.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-24: U.S. Department of Health and Human Services
CFDA #93.658 Foster Care – Title IV-E

Criteria: Under the terms of the Cash Management Improvement Act (CMIA) agreement (section 7.9), the Department of Public Health and Human Services (department) must draw funds for each program based on a warrant clearance pattern established by the Montana Department of Administration. Department fiscal policy states that all CMIA schedules should be reviewed and reconciled on a monthly basis.

Condition: The department is required to draw federal Foster Care money in accordance with an agreement, executed in compliance with the federal government under the Cash Management Improvement Act (CMIA). To calculate the amount and track the timing of draws, the department prepares spreadsheets and reconciles the cash draws to the accounting system. We found instances where the department did not draw Foster Care cash in compliance with terms of the CMIA agreement. The following describes some cash draw errors made by department personnel:

- There were no recorded expenditures, but \$5,279 was drawn.
- Expenditures of \$2,640 were recorded, but the cash draw was \$57,542.
- Expenditures of \$159,764 were recorded, but that amount was credited to the federal government instead of drawn.
- Expenditures of \$120,681 were recorded, but the cash draw was \$6,120.
- Expenditures of \$8,762 for indirect costs were recorded, but the department did not draw cash.
- Expenditures of \$742,926 were recorded at the end of the year, but were not drawn immediately. We could not determine when the draw occurred.

In other cases, the department did not draw the appropriate amount on the date dictated by the CMIA agreement. Had the department performed timely reconciliations of Foster Care cash draws to the CMIA schedule of expenditures, the pattern of errors could have been detected.

Questioned Costs: No questioned costs were identified.

Context: Out of 11 reconciliations tested for various programs at the department, the Foster Care program was the only program not fully reconciled.

Effect: The department is not in compliance with CMIA agreement requirements.

Cause: Department personnel said reconciliations for Foster Care draws did not occur in fiscal year 2002-03.

Recommendation: We recommend the department perform reconciliations of Foster Care cash draws according to department policy to ensure compliance with federal requirements.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-25: U.S. Department of Health and Human Services
CFDA #93.658 Foster Care – Title IV-E

Criteria: OMB Circular A-133 requires reports for Federal awards include all activity of the reporting period, the activity is supported by applicable accounting or performance records, and the report is fairly presented in accordance with program requirements.

Condition: The Department of Public Health and Human Services (department) allocates certain administrative costs for Foster Care and Adoption Assistance based on the level of program activity. In the first step of a two-part process, the department's cost allocation system identifies the costs of the two programs as a single Title IV-E program unit. The department personnel complete the allocation with a manual procedure to separate costs of the two programs. In fiscal year 2002-03, department staff did not complete the allocation of costs between Foster Care and Adoption Assistance.

Questioned Costs: No questioned costs were identified.

Context: We reviewed the quarterly financial report for the Title IV-E programs for the period ended September 30, 2002, and found a difference of \$235,906 between the amounts reported and the state's accounting records. Although the department identified most of this difference as related to the timing of recording allocated administrative costs, department staff did not reconcile the report to the accounting records.

Effect: Foster Care expenditures were overstated and Adoption Assistance expenditures were understated by \$1,322,428 for fiscal year 2002-03 on the state's accounting records.

Cause: Department personnel indicated the allocation process is complicated and they are in the process of revising it to make it more user friendly.

Recommendation: We recommend the department improve the accuracy of its administrative cost allocation to the Foster Care and Adoption Assistance programs.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-26: U.S. Department of Health and Human Services
CFDA #93.563 Child Support Enforcement

Criteria: Federal regulations, 45 CFR 307.10 states "At a minimum, each State's computerized support enforcement system established under the Title IV-D State plan at section 302.85(a)(1) of this chapter must: (b) control, account for, and monitor all the factors in the support collection and paternity determination processes under the State plan. At a minimum this must include: (5) collecting and distributing both intrastate and interstate support payments."

Condition: The Department of Public Health and Human Services (department) administers the federally assisted Child Support Enforcement program that distributes over \$50 million in child support payments annually. The department uses three computer systems, including the Statewide Accounting, Budgeting and Human Resources System (SABHRS), to account for the collection, payment and transfer of funds related to the Child Support Enforcement program. The department performs daily cash reconciliations between the systems. Based on current reconciliations, the department needs in excess of \$400,000 in additional cash to pay the liabilities recorded on SABHRS for Child Support program payments at June 30, 2003.

Questioned Costs: No questioned costs were identified.

Context: Concerns related to the adequacy of the child support reconciliation process have been identified during the last five audits of the department.

Effect: Each month, the difference between the child support collections and the public assistance is calculated, and any amount of collections exceeding the public assistance amount is to be paid to the custodial parent. The department has not been paying parents receiving public assistance the excess collections due to the unreconciled difference.

Cause: A department official said several transactions causing differences have been identified, but the department has not had the resources to research all differences.

Recommendation: We recommend the department immediately resolve unreconciled differences between computer systems used to track and record activity for the Child Support Enforcement program.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-27: U.S. Department of Health and Human Services
CFDA #93.575 & #93.596 Child Care Cluster

Criteria: Federal guidelines require that the Department of Public Health and Human Services (department) perform on-site monitoring of Child Care Resource and Referral agencies.

Condition: The department contracts with 12 local agencies around the state to administer approximately \$21.4 million for federally assisted childcare. These Resource and Referral agencies track applications and bills for child care services for each individual child participating in the program. The agencies use federal regulations to determine what costs and amounts are allowable. Personnel at the agencies are responsible for reviewing bills from child care providers for compliance with federal regulations and entering the charges on the department's childcare computer system. We found that the department did not conduct on-site monitoring of these agencies for three years.

Questioned Costs: No questioned costs were identified.

Context: The department did not conduct on-site monitoring for all 12 local agencies for three years prior to March 2003. The department started monitoring the agencies again in March 2003, and completed field visits to all agencies by August 2003.

Effect: The department is not in compliance with federal subrecipient monitoring requirements.

Cause: A department official said the department designed and implemented a new computer program for the childcare program. Since personnel were assigned to the computer system project, the department did not conduct the monitoring visits.

Recommendation: We recommend the department conduct periodic monitoring of childcare program local agencies.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-28: U.S. Department of Education
CFDA #84.007, #84.033, #84.038, #84.063, #84.268, #93.364, & #93.925 Student
Financial Aid Cluster

Criteria: Federal regulations, 34 CFR 668.22, require the calculation to determine the amount of financial aid that a student has earned is based on the date that the student began the withdrawal process prescribed by the school.

Condition: Students who receive financial aid must return to the U.S. Department of Education any aid that is not earned by the student. The university is responsible for calculating the amount of financial aid that the student must return. At Montana State University MSU-Bozeman (university), a student begins the withdrawal process by talking with the Dean of Students Office or the Graduate Studies Office. These offices obtain the information from the student and fill out an official withdrawal form for the student. The Dean of Students Office notifies the financial aid office, where the amount of unearned financial aid is calculated based on the date of the notification. In three of the ten instances we reviewed, the notification date was not the date the student began the withdrawal process.

Questioned Costs: In these three instances, if the correct date had been used, an additional \$1,800 should have been returned to the U.S. Department of Education.

Context: Based on differences between the notification date and the withdrawal date, we identified a potential of 250 student accounts where the wrong date was potentially used to calculate the amount of unearned financial aid during the fall 2002 and spring 2003 semesters. We did not recalculate the refund amount for each of the 250 students.

Effect: The university is not in compliance with federal refunding requirements.

Cause: University staff indicated the reason for using the incorrect date is due to university policy of using the date of the correspondence as the date that the student withdrew. The date of the correspondence does not always reflect the date that the student first began the withdrawal process but may instead reflect the end of the withdrawal process.

Recommendation: We recommend the university revise its refunding policy to ensure the correct date is used to calculate the amount of aid that must be returned to the U.S. Department of Education.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-29: Various Federal Agencies
CFDA # Various – Research and Development Cluster

Criteria: According to OMB Circular A-110, unless the federal awarding agency authorized an extension, a recipient shall liquidate all obligations incurred under an award no later than 90 calendar days after the funding period or the date of completion.

Condition: Montana State University-Bozeman (university) employs fiscal managers in the Grants and Contracts office who monitor university grants. Individual principal investigators at the departments apply for and receive the grants. The departments are responsible for the research required by the grant while Grants and Contracts is responsible for ensuring all federal requirements are met. We noted 71 of the 164 grants had ended at least 90 days prior to fiscal year end. The dates when the grants had ended range as far back as February 1999. As of August 29, 2003, the grants had not gone through the closing process.

Questioned Costs: No questioned costs were identified.

Context: The university received approximately \$58.5 million in federal research funds in each of the fiscal years 2001-02 and 2002-03.

Effect: The university is not in compliance with federal regulations.

Cause: University personnel stated they were aware the grants had been completed, but in some cases had not had time to go through the formal process of closing the grant.

Recommendation: We recommend the university comply with its procedures to ensure grants are closed out within 90 days or according to grantor guidelines.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-30: Various Federal Agencies
CFDA # Various – Research and Development Cluster

Criteria: The OMB Circular A-102 Common Rule and OMB Circular A-110 require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Condition: We reviewed 30 grants and contracts. The instances below document areas where Montana State University-Bozeman (university) has not complied with its control procedures for its grants and contracts.

- ▶ Federal regulations require only time spent on grants be charged to the grants. The university tracks time spent through time and effort reports. University policy requires the time and effort reports sent to all departments by Grants and Contracts be completed and returned to Grants and Contracts within 30 days. In June of 2003, we noted time and effort reports for the TechLink department had not been completed since January of 2003.
- ▶ Grants and Contracts policy states accounts will be billed monthly in an effort to collect funds in the timeliest manner possible. We noted several grants for MSTN/NASA had not been invoiced timely. The last invoice was dated April 24, 2003. Funds spent totaled \$238,048, but the university had only received revenue of \$101,330. We noted one grant had not been invoiced since October 2002.
- ▶ We noted three grants where the Financial Status Report (SF269) and/or property reports had not been submitted timely. According to federal regulations, annual reports are due 90 calendar days after the grant year.

Questioned Costs: No questioned costs were identified.

Context: The university had over 1,000 federal grants with expenditure activity during fiscal year 2003.

Effect: The university is not in compliance with internal control requirements of the federal government.

Cause: University personnel stated they have not had time to complete the reports, and they got behind on the billing of some grants due to a large workload.

Recommendation: We recommend the university comply with its controls over the grant monitoring process to ensure all state and federal requirements are met.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Award Findings and Questioned Costs

Finding 2-31: U.S. Department of Education
CFDA #84.007, #84.032, #84.033, #84.038, #84.063, #84.268, #93.364, & #93.925 Student
Financial Aid Cluster

Criteria: The instructions for the Fiscal Operations and Application to Participate (FISAP) report state that the America Reads and Math Tutors programs should be reported at the total amount of federal funds expended. Additionally, the FISAP requires both the federal and non-federal share of community services compensation work-study to be reported on separate lines.

Condition: Universities participating in certain financial aid programs are required to complete a FISAP report. The report is due by October 1 of each year. It reports the activity of the completed award year and requests funds for the upcoming award year. The America Reads and the Math Tutors programs are both 100 percent funded by the federal government. When preparing the FISAP, Montana State University-Billings (university) made an error, assuming these programs are a 75 percent federal, 25 percent state match. This error understated the total federal expenditures. In addition, the university included the state share on the federal line item and on the state line item for the community services compensation work-study program, as a result, the state share doubled.

Questioned Costs: No questioned costs were identified.

Context: The understatement and overstatement of expenditures on the FISAP did not materially misstate the FISAP for the 2001-02 grant award.

Effect: Total federal expenditures for the America Reads and Math Tutors programs were understated by \$1,081. The community services compensation error resulted in doubling the state share and a total overstatement of \$17,010.

Cause: University personnel stated the report contained the wrong number from the supporting documentation.

Recommendation: We recommend the university improve procedures to ensure the financial aid reports are accurate and prepared in accordance with federal requirements.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-32: U.S. Department of Housing and Urban Development
CFDA #14.856 & #14.195 Section 8 Project-based Cluster

Criteria: Federal regulations, 24 CFR 882 includes federal requirements on property owner payments for vacant and tenant damage claims.

Condition: Under the Mod-Rehab program a property owner can receive reimbursement for certain costs. These costs include reimbursements for tenant caused damage to property or for unit vacancy. We tested a sample of claims filed for tenant damage or unit vacancy at the Department of Commerce (department). Four of the sample items contained errors in the calculation of the reimbursement amount to property owners; the other two contained incorrect determinations of liability based on tenant vacancy notices. One of the six files contained an additional error where a property owner was overpaid by \$1,117. Although a note had been placed in the file detailing this overpayment, the department failed to collect this amount from the property owner.

Questioned Costs: One of the six files contained an additional error where a property owner was overpaid by \$1,117.

Context: Of the 19 sample items selected in fiscal years 2001-02 and 2002-03, six files contained errors.

Effect: The department is not in compliance with federal reimbursement requirements.

Cause: Department personnel stated that these items were overlooked or miscalculated.

Recommendation: We recommend the department:

- A. Establish controls in the Mod-Rehab program to ensure amounts reimbursed to property owners are properly calculated and paid, and
- B. Seek reimbursement for the \$1,117 overpayment.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-33: U.S. Department of Transportation
CFDA #20.205 Highway Planning and Construction

Criteria: Federal regulations require that the Montana Department of Transportation (department) have an adequate control system to monitor compliance with Davis-Bacon Act requirements. The Act's requirements are applicable to federal-aid highway contracts in excess of \$2,000. Wages paid to highway construction workers and mechanics must not be less than the published prevailing wage established by the U.S. Department of Labor. All covered employees of subcontractors on federal-aid highway projects are also to be paid in accordance with the Davis-Bacon prevailing wage rates.

Condition: The department's Civil Rights Bureau (CRB) is responsible for implementing and monitoring the department's civil rights requirements including compliance with Davis-Bacon Act requirements. During the audit, we reviewed seventeen completed construction projects and tested the controls over the receipt of required documentation and certification of required payrolls in the CRB. For one of the projects reviewed, we could not verify the payrolls for two subcontractors who were listed on the labor certification as having submitted payrolls. The CRB's normal control system is to monitor all subcontractors for which it has received subcontractor assignment notifications on each construction project. Since a written subcontractor assignment was on file with CRB for each of the two subcontractors, CRB personnel should have investigated the lack of payroll documents for the two subcontractors prior to completing the final labor certificate. The labor certificate indicated all required payrolls had been received.

In addition, we noted the following two issues indicating weaknesses exist in the control procedures designed to ensure compliance with Davis-Bacon Act provisions.

- ▶ While reviewing CRB payroll files for compliance with Davis-Bacon Act requirements, we reviewed the accuracy and completeness of the project labor certifications. For the 17 files reviewed, we found that three labor certifications were missing a total of seven subcontractors who worked on the projects. The subcontractors not included on the labor certifications cause us to question the accuracy of the labor certifications.
- ▶ CRB receives a copy of all subcontractor notification forms from the department's Construction Bureau approving the request to subcontract some of the project. When CRB has knowledge of a subcontractor working on a project, they expect to receive payrolls and to investigate if the payrolls have not been received. Since payrolls are received by CRB through the project engineers for all contractors and subcontractors, CRB may receive payrolls for subcontractors regardless of whether it has received the assignment notification form.

Questioned Costs: We question the allowability of \$24,739 for the payments made to these two subcontractors because no documentation of compliance with the Act exists.

Context: During fiscal years 2001-02 and 2002-03, the department spent approximately \$280 million and \$306 million of federal-aid highway funds, respectively.

Effect: At the time of the final labor certification, the department did not have adequate documentation of compliance with Davis-Bacon Act provisions or support that the Act was not applicable.

Cause: Department personnel did not have any explanation as to why the required certified payroll was not on file at CRB. Lack of communication between CRB and the department's Construction Bureau causes the CRB's control of monitoring all contractors and subcontractors to potentially fail.

Recommendation: We recommend the department evaluate, revise, and monitor control procedures to ensure compliance with federal Davis-Bacon Act provisions.

State of Montana
Schedule of Findings and Questioned Costs
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Section III - Federal Awards Findings and Questioned Costs

Finding 2-34: U.S. Environmental Protection Agency
CFDA #66.458 Capitalization Grants for State Revolving Funds
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Fund

Criteria: Federal regulations, 40 CFR 35.3165 requires the State Revolving Fund program receive an annual financial and compliance audit. This section also requires the audit report be completed within one year of the end of the appropriate accounting period.

Condition: Montana's Water Pollution Control and Drinking Water State Revolving Fund programs are administered jointly by the Montana Department of Environmental Quality and the Department of Natural Resources and Conservation (department). Historically, the department has requested a financial audit of these programs each year because annual audits are required by the federal Environmental Protection Agency. As of September 2002, the audit of the State Revolving Fund Programs for fiscal year 2001 had not been completed because final financial statements had not been provided by the department.

Questioned Costs: No questioned costs were identified.

Context: Legislative Audit Division has conducted audits of the programs for approximately 5 years. Based on our knowledge of the programs, the audits alternate between timely and non-timely.

Effect: The departments are not in compliance with federal audit requirements of the programs.

Cause: Department personnel indicated the audit was late due to staff turnover at the departments.

Recommendation: We recommend the department establish procedures to complete the State Revolving Fund financial statements to ensure the audit report can be completed within one year as required by federal regulations.

State of Montana
Schedule of Findings and Questioned Costs
For the Two Fiscal Years Ended June 30, 2003

Section III - Federal Award Findings and Questioned Costs

Finding 2-35: U.S. Department of Agriculture (USDA)
CFDA #10.664 Cooperative Forestry Assistance

Criteria: Federal regulations, 7 CFR 3016.20(b)(7), require the Department of Natural Resources and Conservation (DNRC) to establish procedures minimizing the time between the transfer of funds from the U.S. Treasury and disbursement by the DNRC.

Federal regulations, 7 CFR 3016.41(b)(3), require the DNRC to submit Financial Status Reports as prescribed by the USDA, but not more frequently than quarterly. In the grant agreement, the USDA specified the Financial Status Report be submitted quarterly for the federal fiscal year 2003 award and annually for awards made in prior federal fiscal years.

OMB Circular A-133, Subpart C, Section .300(b) requires the DNRC to maintain internal control over Federal programs that provides reasonable assurance the federal award is managed in compliance with laws, regulations, and the provisions of the contracts or grant agreements that could have a material effect on it.

Condition: In our review of cash draws for fiscal year 2001-02 and 2002-03, we noted the DNRC did not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the related disbursements. We identified four instances where cash draws were drawn in advance of related disbursements by periods ranging from one and one-half to seven months.

Except for one financial status report, DNRC personnel were unable to provide documentation demonstrating they prepared and filed the Financial Status Reports applicable to the award during fiscal years 2001-02 and 2002-03.

We could not verify that internal control over compliance exists for cash management, reporting, eligibility and matching compliance requirements applicable to the Cooperative Forestry Assistance award during fiscal years 2001-02 and 2002-03. We did not identify instances of noncompliance with the eligibility and matching compliance requirements applicable to the award.

Questioned Costs: No questioned costs were identified.

Context: The DNRC expended \$2,419,203 and \$2,788,511 in fiscal years 2001-02 and 2002-03, respectively, under this federal award. Of the fourteen types of federal compliance requirements, nine are applicable to this award.

Effect: The DNRC is not in compliance with OMB Circular A-133, 7 CFR 3016.20(b)(7) and 7 CFR 3016.41(b)(3).

Cause: DNRC personnel indicated these errors occurred as a result of employee turnover and the complexity and size of the award increasing over time. We also observed that policies and procedures were not documented and management did not ensure its employees established internal control over compliance.

Recommendation: We recommend the department establish, document, and monitor internal control over compliance with the cash management, reporting, eligibility and matching compliance requirements for the Cooperative Forestry Assistance award.

Corrective Action Plan

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**STATE OF MONTANA
CORRECTIVE ACTION PLAN
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2003
CAP - Corrective Action Plan**

Finding #	CFDA #		Person Responsible for CAP	Target Date
Finding #2-1	15.605, 15.611	The Department of Fish Wildlife and Parks has stressed the importance of following proper contracting and procurement procedures with department employees.	David Clark-Sunstad, Accounting and Property	Completed
Finding #2-2	Various, EPA, Interior, Energy	The Department of Environmental Quality will stop using leave pools this fiscal year and will charge leave costs uniformly and equitably in accordance with recently issued state accounting policy.	Ann Danzer, Chief Financial Officer	June 30, 2004
Finding #2-3	66.458, 66.468	<p>The U.S. Department of Energy Federal Cash Transactions Reports have been filed. The U.S. Department of Interior's Office of Surface Mining doesn't require Federal Cash Transactions Reports. The Nonpoint Source and Performance Partnership Grant Financial Status Reports have been filed. The Water Pollution Control and Drinking Water State Revolving Funds Financial Status Reports have been filed.</p> <p>DEQ has requested an exemption from Federal Cash Transaction reporting requirements of EPA, based on P.L. 106-107 (Federal Financial Assistance Management Improvement Act) citing that the required information was provided through other reports already submitted and the Automated Cash Draw System (ASAP). EPA has not responded to our requests, however, OMB has developed a Consolidated Federal Financial Report that combines and streamlines elements of both the Federal Cash Transaction Report (SF 272) and the Financial Status Report (SF 269) as part of its grants streamlining effort in response to P.L. 106-107. DEQ has reviewed, and has commented on, the proposed report. Implementation of this report will not pose a problem for DEQ.</p>	Ann Danzer, Chief Financial Officer	Completed

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Finding #	CFDA #		Person Responsible for CAP	Target Date
Finding #2-4	17.207, 17.801, 17.804	The Department of Labor and Industry conducted an extensive internal audit of its asset and property records in 2003, verifying and correcting records and federal ownership shares. It has created processes to properly reflect federal ownership share of future assets purchased using federal funds. Property staff has received additional training on the state's asset management system to ensure and reflect correct recording and disposal of assets. Additionally, property staff conduct a biennial physical inventory of all assets to ensure all necessary adjustments are made to accounting records.	Bernadine Warren, Chief, Fiscal Support Bureau, Centralized Services Division	Completed
Finding #2-5	17.225	The Department of Labor and Industry resolved the technology issues that resulted in untimely submission of ETA 227 reports in September 2002.	Joanne Loughney-Finstad, Chief, Unemployment Insurance Division	Completed
Finding #2-6	Various	The Department of Labor and Industry performed a full reconciliation of its internal service fund in January 2003. Based on the results of this analysis, the department identified how much each division had been overcharged for services. In order to reduce the existing fund balance, the department refunded monies to each division through either an offset of current year services or purchases of IT equipment for that division. The department reduced the fund balance to an appropriate level by state fiscal year-end 2003. The department has implemented procedures to monitor the activity in its internal service fund on a monthly basis. Moreover, the department now bills divisions for the actual cost of services received each month, thus eliminating the possibility of a growth in the fund balance of this internal service fund.	Bernadine Warren, Chief, Fiscal Support Bureau, Centralized Services Division	Completed

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Finding #	CFDA #	Person Responsible for CAP	Target Date
Finding #2-7	17.207, 17.225	Bernadine Warren, Chief, Fiscal Support Bureau, Centralized Services Division	Completed
Finding #2-8	93.775	Karen Munro, Fiscal Bureau Chief	Completed
Finding #2-9	12.400, 12.401	Karen Revisius, Administrator, Centralized Services	Completed
Finding #2-10	84.011	Cathy Warhank, OPI Legal Counsel	January 31, 2004

To resolve the issue, the Department of Labor and Industry received training from the state's Department of Administration, and passed the training on to new staff. The department has been in compliance with the CMIA agreement since April 2002. Additionally, financial compliance auditors from the Legislative Audit Division concluded that this audit recommendation had been fully implemented in the recent financial compliance audit for the fiscal year ended June 30, 2003.

In FY04, the Department of Justice started recording the Medicaid Fraud control Unit activity in its own separate federal accounting entity. This allows the auditors and everyone to determine the exact amount of cash for this program at any date.

The finding at Military Affairs was a one time occurrence and the correct information has been entered in the CMIA spreadsheets since July 1, 2002.

The Office of Public Instruction (OPI) requested an Attorney General's opinion as to the meaning of the subject statutes and their applicability to state employees. A letter of advice, rather than a formal opinion, from Assistant Attorney General Pamela Buci was received on October 29, 2003. Ms. Buci's response was specific to the relationship described in the auditor's report; she concluded that relationship violated both the letter and spirit of Montana law. In response, the OPI's employee resigned from her position on the Rural Employment Opportunities Board of Directors. OPI's legal counsel is currently reviewing all employees' memberships for similar situations and, if there are any, those relationships will be ended as well.

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Finding #	CFDA #	Person Responsible for CAP	Target Date
Finding #2-11	17.225	<p>In the cooperative agreement between the Department of Revenue (DOR) and the Department of Labor and Industry (DOLI), DOR is required to prepare the ETA 581 Report and submit it to DOLI within fifteen days following the end of the quarter, as compared to the federal forty-five day standard.</p> <p>DOR issued the reports to DOLI on April 18, July 25, October 20 and January 20, respectively, for the quarters ended March 31, June 30, September 30 and December 31, 2003. The personnel who prepare these reports have since transferred to DOLI and since January 1, 2004; this function has been transferred to DOLI as well. The minimal delay in the 15-day requirement was partially due to having access re-established for these individuals to run the report. Also, a manual review is conducted each time to make sure the information can be verified on each of the items included on the report.</p>	<p>DOR and DOLI will continue to follow current practice in preparing the quarterly reports until administration of unemployment insurance completely transfers to DOLI. The target date for this move is July 1, 2004</p> <p>Don Hoffman, Administrator – Business and Income Taxes Division</p>

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Finding #	CFDA #	Person Responsible for CAP		Target Date
Finding #2-12 (A)	17.225	Since the DOR last update, whereby they reported on steps taken to ensure rates were accurate for calendar year 2002, and experience factors for rating purposes were being transferred to successor employers, steps were taken for subsequent years to accurately calculate employer UI rates. Beginning in October of 2002, DOR has been reconciling any data processing and/or taxpayer errors on POINTS with full implementation of this project beginning in February 2003. In preparation for rating, the unit manager selected all accounts, which would have been eligible for a penalty rate and assigned them to auditors to review by December 15. Because these accounts were reviewed and corresponding corrections were made just prior to rating, the number of employers assigned penalty rates was reduced by 36%. Progress was made in 2003 and 2004. As was done in 2002 and 2003, all penalty rated employers for 2004 were manually reviewed to determine if the rate was appropriate before notifying the employer. DOR will continue to use a spreadsheet to monitor the progress of the rate appeals.	This function will transfer to DOLI when administration of unemployment insurance is transferred to DOLI effective July 1, 2004	Don Hoffman, Administrator - Business and Income Taxes Division

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Finding #2-12 (B)		DOR last responded to this recommendation in regards to controls taken in 2002 as compared to 2001, to monitor UI rate inquiries and adjustments and to ensure there are adequate supervisory reviews. To expand on the controls in place, a worksheet is used by the Call Center staff, as well as the auditors, to record when each employer called and to identify what issues or questions the employers have about their rate notice. These questions may be related to the amount of the benefit charges, the contributions paid, or the taxable wages reported. The information on these worksheets is reviewed by the three auditors who specialize in the unemployment insurance experience rating process. These auditors also manually compute and verify the rates. The auditors indicate on the worksheets what changes were made, if any, along with the reason for the change. The worksheets are tracked on an Excel spreadsheet. Written protests are handled in the same manner. If a rate is changed, a revised rate notice is sent. If not, a letter is sent to the employer. A copy of the letters are attached to the worksheets and placed in the employer's file.	This function will transfer to DOLI when administration of unemployment insurance is transferred to DOLI effective July 1, 2004	Don Hoffman, Administrator – Business and Income Taxes Division
Finding #2-13	Various	Montana Tech was contacted by the U.S. Department of Health and Human Services (DHHS) on September 13, 2002, regarding the finding. Tech was required to provide a written response to DHHS by October 18, 2002, indicating concurrence or nonconcurrence with the finding, and documentation to support the leave pool rates and any analyses performed to demonstrate the propriety of the leave pool amounts. Tech's response and documentation was provided to DHHS on October 17, 2002. Tech received a letter from David Low, DHHS, on December 23, 2002, approving the documentation to support the leave rates, and resolved the issue.	Lynn Job, Director Grants and Contracts	Completed
Finding #2-14	10.557	The WIC program will ensure the required federal monitoring requirements are met by tracking the visits via the annual monitoring spreadsheet. The timely performance of monitoring visits and related report submissions will be included as a performance measure in all applicable staff appraisals.	Marie Matthews, Fiscal Policy Advisor	Completed

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Finding #	CFDA #	Person Responsible for CAP	Target Date
Finding #2-15	10.557	Procedures have been implemented to ensure WIC personnel complete a weekly review of the daily void/reissue receipts. All documentation will include the follow-up and justification/clarification of noted inconsistencies.	Completed
Finding #2-16	10.557	The WIC program has implemented procedures to ensure that the dual certification report is run and reviewed by the last day of the month following the reporting period.	Completed
Finding #2-17	84.126	In the future, all financial reports completed by the Vocational Rehabilitation Budget Analyst will be reviewed by the Disability Services Division Financial Services Bureau Chief prior to the submission of the reports.	Completed
Finding #2-18	84.126	The Department of Public Health and Human Services (DPHHS) has reviewed the costs in question and adjusted the expenditures to the appropriate federal fiscal year. The Vocational Rehabilitation budget staff will continue to monitor the monthly expenditure reports and ensure they are charged to the correct grant period.	Completed
Finding #2-19	84.126	The DPHHS will reinforce and/or strengthen vocational rehabilitation procedures involving client file documentation by 1) training all affected staff by the end of December 2003, 2) highlighting the importance of the annual financial review during ongoing training, 3) increasing the importance of financial documentation during case auditing and 4) strengthening Montana's requirements for the standard of proof concerning trust funds.	Completed
Finding #2-20	93.959	The DPHHS will ensure future state spending levels for the Substance Abuse and Prevention grant meet the level of effort requirement. Addictive and Mental Disorders Division personnel are currently working with SAMHSA on resolution of the federal fiscal year 2001 shortfall.	Awaiting Federal Response
Finding #2-21	93.959	The department has identified adequate prevention expenditures to satisfy the federal fiscal year 2001 requirement and adjusted the state's financial records accordingly.	Completed

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Finding #	CFDA #		Person Responsible for CAP	Target Date
Finding #2-22	93.558	The Fiscal Services and Human and Community Services Divisions have implemented procedures to ensure that all future LIEAP financial reports will be filed accurately.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-23	93.558	The DPHHS will ensure that the transfers are completed weekly as agreed upon. Once the recommendation is fully implemented the transfers will no longer be necessary and the language will be removed from the cash management agreement.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-24	93.558	The Fiscal Services Division has developed a work plan to review the supervisory responsibilities within the division. Included in the development and implementation of this work plan is a review of all division policies, including cash reconciliations, and the methods used to ensure they are accomplished timely.	Marie Matthews, Fiscal Policy Advisor	June 30, 2004
Finding #2-25	93.558	The DPHHS has completed all major accounting changes required to more accurately reflect the administrative burden of the Foster Care and Adoption Assistance grants. Several additional minor accounting improvements will be completed by December 31, 2003.	Marie Matthews, Fiscal Policy Advisor	February 28, 2004
Finding #2-26	93.553	The DPHHS is working diligently to complete a review of all available financial data. Upon completion of the review an adjusting journal to bring the two systems into balance will be completed. A daily reconciliation procedure has been implemented to ensure future imbalances are detected and resolved timely.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-27	93.575, 93.596	The DPHHS agrees that a monitoring program is a necessary component of the management of the Child Care Development Fund to assure that funds are used appropriately. A contract-monitoring program is currently established and is planned to continue.	Marie Matthews, Fiscal Policy Advisor	Completed

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Finding #	CFDA #	Person Responsible for CAP	Target Date
Finding #2-28	84.007, 84.033, 84.038, 84.063, 84.268, 93.364, 93.925	Tom Stump, Auxiliary Services Director	Completed
Finding #2-29	Various, R&D Cluster	MSU will endeavor to make grant closures in compliance with University policy and grantor guidelines.	Completed and Ongoing
Finding #2-30	Various, R&D Cluster	Leslie Schmidt, MSU Bozeman Grants and Contracts	Completed and Ongoing
		Leslie Schmidt & Laura Humberger MSU Bozeman, Chuck Jensen MSU Northern, LeAnn Anderson MSU Billings	Implemented

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Finding #2-31	84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.364, 93.925	The process for FISAP preparation has been refined to assist in identifying such errors.	Completed
Finding #2-32	14.856, 14.195	A) Section 8 will create a spreadsheet to automatically calculate damage claim reimbursements to assure consistency. B) Collect overpayment.	George Warn, Bureau Chief, Housing Assistance A) May 2004 B) Completed
Finding #2-33	20.205	The Civil Rights Bureau (CRB) will review their processes and procedures to ensure compliance with the Davis-Bacon Act. Specific training has been provided for current Civil Rights Bureau Staff and the Project Manager for this project and the District Construction Supervisor were notified of the error and their role in failing to collect the appropriate payrolls. Notice has been sent to all Project Managers and District Construction Supervisors reminding them that payrolls must be submitted for each and every contractor performing work on a project site. CRB personnel have scheduled payroll classes throughout the state during January and February 2004. Project Managers and contractors will be participating in the classes. Also, CRB will work with the Construction Bureau to implement a notification of subcontract process this fall.	Civil Rights Bureau, Construction Bureau March 31, 2004
Finding #2-34	66.458, 66.468	A financial reporting schedule is currently in place and both the FY02 and FY03 financial statements were completed on time allowing the audit to be completed within one year.	John Patrick, Accountant, Centralized Services Completed

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Finding #	CFDA #		Person Responsible for CAP	Target Date
Finding #2-35	10.664	The Department of Natural Resources and Conservation will put into place procedures for monthly cash draws and quarterly financial reporting. Controls will be developed to verify eligibility and matching compliance requirements are met.	Ann Bauchman, Administrator Central Services; Sue Clark, Forestry Division, DNRC	All controls and procedures will be in place by June 1, 2004.

Summary Schedule of Prior Audit Findings

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
VARIOUS FEDERAL AGENCIES							
Various	AMLP 15.252 Capitalization Grants for State Revolving Funds 06.458 Performance Partnership Grants 66.605	4-5	Leave pool inadequacy	N/A	1	98-99	All DEQ leave pools have been eliminated.
Various	Food Stamps 10.551 State Adm Matching Grants for Food Stamps Temporary Assistance for Needy Families 10.561 Child Care & Development Block Grant 93.558 Foster Care - Title IV-E 93.658 Medical Assistance Program 93.575, 93.658, 93.778	13-10	Inadequate procedures to prepare the Schedule of Expenditures of Federal Awards (SEFA)	N/A	1	96-97	
Various	Food Stamps, Child Support Enforcement, SSDI, among others 10.551, 10.557, 10.558, 10.561, 84.126, 93.560, 93.563, 93.568, 93.575, 93.667, 93.778, 96.001	13-11	Noncompliance with CMIA	N/A	1	96-97	
Various	Food Stamps, Child Support Enforcement, SSDI, among others 10.551, 10.561, 10.557, 10.558, 10.567, 84.126, 93.044, 93.045, 93.558, 93.563, 93.568, 93.575, 93.596, 93.658, 93.667, 93.775, 93.777, 93.778, 93.959, 93.994, 96.001	2-1	Noncompliance with CMIA	N/A	1	98-99	

Category of Corrective Action Taken

1 Finding has been fully corrected.

2 Finding has not been corrected or is partially corrected.

3 Corrective action taken is significantly different than reported.

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Aging Cluster, Child Support Enforcement, among others 84.126, 93.044, 93.045, 93.558, 93.959, 93.563, 93.867, 93.994	9-6	Noncompliance of federal reporting and level of effort requirements	N/A	1	98-99	
Various	Rehab Services 84.126 Aging Cluster 93.004, 93.045 TANF 93.558 CSE - Title IV-E 93.563 Foster Care - Title IV-E 93.658 Medicaid Cluster 93.775 93.777 93.778	9-7	Noncompliance with federal regulations for review and analysis of data processing and system security issues for systems.	N/A	1	98-99	
Various	Supplemental for WIC 10.557 Food Distribution on Indian Reservations TANF 10.567 Medicaid Cluster 93.558, 93.775, 93.777, 93.778	2-5	Inability to ensure that all transactions are in accordance with GAAP	N/A	1	98-99	
Various	WIC 10.557 Nat. School Lunch 2-2 10.555 Rehabilitative Services 84.126 among others 93.468, 93.558 93.596 93.658, 96.667, 93.778	2-2	CMIA cash balances	N/A	1	00-01	
Various	Food Stamp Cluster 10.551, 10.561 Supplemental WIC 10.557 Nat. School Lunch 10.555 among others 84.126, 93.468, 93.558, 93.596, 93.658, 93.667, 93.776, 93.959	2-3	CMIA clearance patterns	N/A	1	00-01	
Various	Rehabilitation Services- Voc Rehab. Grants to States 84.126 Temporary Assist. For Needy Families (TANF) 93.558	2-25	Record retention requirements	N/A	1	00-01	

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Food Stamps, WIC, National School Lunch among others 10,551, 10,561, 10,557, 10,555, 10,567, 84,126, 93,044, 93,045, 93,558, 93,563, 93,568, 93,575, 93,596, 93,658, 93,667, 93,775, 93,777, 93,778, 93,959, 93,767, 96,001	2-47	Inadequate internal control structure	N/A	1	00-01	
Various	Food Stamps, WIC, National School Lunch among others 10,551, 10,561, 10,557, 10,555, 10,567, 84,126, 93,044, 93,045, 93,558, 93,563, 93,568, 93,575, 93,596, 93,658, 93,667, 93,775, 93,777, 93,778, 93,959, 93,767, 96,001	2-48	Reconciling data processing subsystems to the primary accounting system.	N/A	2	00-01	The DPHHS has continued to work on reconciliation activities between subsystems and SABHRS.
Various	U.S. EPA, Dept. of Interior, Dept. of Energy, various CFDA #s	2-20	Equitability of leave pools	\$202,180	1	00-01	All DEQ leave pools have been eliminated.
Various	Labor Force Statistics, Compensation and Working Conditions amount others 17,002, 17,005, 17,203, 17,207, 17,225, 17,245, 17,246, 17,248, 17,249, 17,250, 17,253, 17,257, 17,600, 17,801, 17,804, 17,999, 30,002, 81,186, 93,561, 94,003, 94,004, 94,006, 94,009	2-12	Maintaining excess reserves in the department's central service fund	\$202,185	1	00-01	This finding is fully implemented. The fund balance has been held within the 60 day limit since January 2001. The department monitors the fund on a monthly basis.

Category of Corrective Action Taken

- 1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	National School Lunch Program 10.555, Title I Grants to Local Educational Agencies 81.010, Special Education - Grants to States 84.027 Vocational Education - Basic Grants to States 84.078	2-45	CMIA compliance	N/A	1	00-01	All 56 Montana counties now accept EFT payments from the Office of Public Instruction.
Various	Supplemental for WIC 10.557 TANF 93.558 CSE 93.563 Child Care Cluster 93.575 Foster Care IV-E 93.658 Social Services Block 93.667, 93.596	2-2	Noncompliance with CMIA	N/A	1	98-99	
Various	Various Research and Development Cluster CFDA #s	2-40	Inappropriate person certify time and effort reporting	\$198,000	1	00-01	The University of Montana Missoula updated policies and procedures. The university will also annually distribute memos to principal investigators reminding those employees of their responsibility in certifying time and effort and the procedures.
Various	Various Research and Development Cluster CFDA#s	2-41	Leave pool calculation	\$309,462	1	00-01	New leave assessment completed by MT Tech and approved by US DHHS.
Various	U.S. DEPARTMENT OF AGRICULTURE Food Stamps 10.551 State Administrative Matching Grants 10.561	2-43	Untimely federal fiscal reports	N/A	1	00-01	
10.555	National School Lunch Program	2-54	Untimely on-site reviews	N/A	1	00-01	

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
10.557	Special Supplemental Nutrition Programs for Women, Infants, and Children (WIC)	2-1	Follow-up procedures on WIC vouchers on edit report.	N/A	2	00-01	Procedures have been implemented to ensure WIC personnel complete a weekly review of the daily void/issue receipts. All documentation will include the follow-up and justification/clarification of noted inconsistencies.
12.404	DEPARTMENT OF DEFENSE National Guard Civilian Youth Opportunities	2-4	Improperly splitting purchases on state credit card to circumvent the \$5,000 limit	\$27,251	1	00-01	
12.404	National Guard Civilian Youth Opportunities	2-53	WIA used as match for the Youth Challenge Program	\$329,074	1	00-01	
Various	DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Home Investment Partnership Program 14.239, Section 8 Housing Choice Vouchers 14.871, Section 8 Housing Choice Vouchers 14.855 & 14.857	2-5	Not having adequate controls related to reviewing the allowability of administrative costs	N/A	2	00-01	The Department of Commerce has adopted internal controls related to grantee use of program income and required documentation for administrative and planning costs.
14.239	Home Investment Partnership Program	2-6	Not ensuring that program income was properly spent by sub recipients	N/A	2	00-01	The Department of Commerce has adopted internal controls related to grantee use of program income and required documentation for administrative and planning costs.
Various	U.S. DEPARTMENT OF INTERIOR Sports Fish Restoration - Fish and Wildlife Cluster 15.605, Wildlife Restoration - Fish and Wildlife Cluster 15.611	2-10	Not following proper CMAA clearance patterns	N/A	1	00-01	
15.252	Abandoned Mine Land Reclamation Program (AMLR)	2-9	Improperly charging costs to the AMLR program	N/A	1	00-01	
15.904	Historic Preservation Fund Grants-in-Aid	2-7	Noncompliance with OMB A-87	\$14,136	1	00-01	

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
15.904	Historic Preservation Fund Grants-in-Aid	2-11	Cash management of grant	\$35,799	1	00-01	
17.225	U.S. DEPARTMENT OF LABOR Unemployment Insurance (UI)	2-13	Nonsubmission of quarterly report (ETA 581)	N/A	1	00-01	The POINTS issues that resulted in the untimely filing of ETA 581 reports have been resolved through programming changes. The Department of Labor has submitted all reports for the periods through the current date. Reports for the periods ending 6/30/02, 9/30/02, 12/31/02 were submitted on time. All current and future reports have been, and will be, submitted timely.
17.207	Employment Services	2-14	Improper disposition of real estate	\$81,001	1	00-01	This finding is fully implemented. All real estate proceeds from the sale of properties at issue were used to make bond payments in accordance with the law.
17.225	Unemployment Insurance (UI)	2-15	UI accounts do not balance between state accounting records and bank statements	N/A	1	00-01	This issue is fully resolved. A reconciliation of the benefit account is done each month, making the adjustments for manual checks, state dated checks, stop pays and voided checks and working with US BANK to ensure that they are not duplicating information that has already processed and that the MICR coding is correct.
17.225	Unemployment Insurance (UI)	2-16	Improper expenditure accrual	\$548,688	1	00-01	The Department of Revenue continues to follow state policy for expenditure accruals.
17.225	Unemployment Insurance (UI)	2-17	Untimely deposits of UI money into the Unemployment Trust Fund	N/A	1	00-01	The Department of Revenue is exceeding the federal standard of timely deposits.
17.225	Unemployment Insurance (UI)	2-46	Computer system did not transfer N/A experience rates related to UI	N/A	1	00-01	Experience factors for rating purposes are being transferred to successor employers, thereby ensuring rates are calculated properly.

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 1 Finding has been fully corrected. 2 Finding has not been corrected or is partially corrected. 3 Corrective action taken is significantly different than reported.

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CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
17 253	Welfare-to-Work Grants to States and Localities	2-42	Charges in excess of grant authorized	N/A	1	00-01	The FY98 three-year federal Welfare to Work grant award effective date ended August 29, 2002. Thus, the Department of Labor was entitled to make accounting corrects through August 29, 2002. Although accounting records reflected expenditures in excess of grant amounts at one time during the grant period, at no time did it draw funds in excess of the award amount. Additionally, the department moved excess expenditures to a state funding source by March 2002, resolving the issue. Final reports submitted to USDOL accurately reflect actual expenditures, which do not exceed the grant amount. Accounting staff now prepare monthly financial status reports to ensure excess expenditures are transferred to state funding sources in a timely fashion.
20 205	U.S. DEPARTMENT OF TRANSPORTATION Highway Planning & Construction 9-1		Inadequate sub recipient monitoring procedures	N/A	2	96-97	The Montana Department of Transportation (MDT) has informed staff responsible for federal programs of the requirement to modify contract language to comply with OMB Circular A-133.
20 205	Highway Planning & Construction 6-1		Inadequate sub recipient monitoring procedures	N/A	2	98-99	The Research Section of the MDT has implemented procedures to review the audit reports of the universities participating in the LTAP Program. Offices responsible for federal programs have been informed of the requirement for contract language to comply with OMB Circular A-133. The department develops a comprehensive list of funds subgranted to other agencies. This list is a supplement to the Schedule of Economic Assistance that is submitted annually.

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FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2003

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
20.205	Highway Planning and Construction	2-18	Inadequate sub recipient monitoring procedures	N/A	2	00-01	The MDT offices sub-granting federal monies were identified, and procedures to determine that the programs were in compliance with OMB Circular A-87 were developed in fiscal year 2002. These procedures were implemented during fiscal year 2002 and 2003. The procedures were not fully implemented in the Highway Traffic Safety program.
U.S. ENVIRONMENTAL PROTECTION AGENCY							
Various	Capitalization Grants for State Revolving Funds 66.458 Capitalization Grants for Drinking Water State Revolving Fund 66.468	2-49	Fiscal control and accountability	N/A	1	00-01	
Various	Capitalization Grants for State Revolving Funds 66.458 Capitalization Grants for Drinking Water State Revolving Fund 66.468	2-50	Inadequate segregation of duties	N/A	1	00-01	
Various	Capitalization Grants for State Revolving Funds 66.458 Capitalization Grants for Drinking Water State Revolving Fund 66.468	2-8	DEQ did not submit any federal cash transactions reports	N/A	2	00-01	The Department of Environmental Quality (DEQ) made numerous requests of EPA for an exemption from Federal Cash Transaction reporting requirements based on P.L. 106-107 (Federal Financial Assistance Management Improvement Act) citing that the required information was provided through other reports already submitted and the automated cash draw system (ASAP). EPA did not respond to our requests, however, OMB has developed a Consolidated Federal Financial Report that combines and streamlines elements of both the Federal Cash Transaction Report (SF 272) and the Financial Status Report (SF 269) as part of its grants streamlining effort in response to P.L. 106-107. DEQ has reviewed, and is commenting on, the proposed report. Implementation of this report will not pose a problem for DEQ since it is cycled on the same basis as the current SF 269s that DEQ has kept current.

Category of Corrective Action Taken

1 Finding has been fully corrected.

2 Finding has not been corrected or is partially corrected.

3 Corrective action taken is significantly different than reported.

STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2003

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Capitalization Grants for State Revolving Funds 66.458 Capitalization Grants for Drinking Water State Revolving Fund 66.468	2-19	Not obtaining certification for suspension or debarment of federal assistance	N/A	1	00-01	
84.032	U.S. DEPARTMENT OF EDUCATION Federal Family Education Loans 9-4		Insufficient review of lenders	N/A	1	98-99	The Guaranteed Student Loan Program (GSLP) has corrected the audit finding related to "Insufficient review of Lenders"
84.032	Federal Family Education Loans 2-52		Not performing a comprehensive review of certain lenders	N/A	1	00-01	The program review has been completed by GSLP.
84.038	Federal Perkins Loan Program - Federal Capital Contributions 2-21		Not reviewing report from third party in regards to loan collections in accordance with federal regulations	N/A	1	00-01	MSU Bozeman's Loan Service Center personnel have always reviewed the service auditors' report and will continue to do so. The financial aid office now reviews the report in addition to Loan Service Center personnel.
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States 9-8		Subsystem (AWACS) did not reconcile with the primary accounting system	N/A	1	98-99	
84.243	Tech-Prep Education 2-51		Not properly accounting for refunds	\$50,414	1	00-01	New procedures are in place at the Office of the Commissioner of Higher Education.
Various	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Aging Cluster 93.044, 93.045 Foster Care Title IV-E 93.658	10-3	Inability to ensure accurate funding sources are processed	N/A	1	98-99	
Various	Medicaid Cluster 93.775, 93.777 and 93.778 2-22		Data and information technology controls for terminated employees	N/A	1	00-01	

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2003

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Aging Cluster 93.044, 93.045 Foster Care Title IV-E 93.658 Medicaid Cluster 93.775, 93.777, 93.778	10-15	Reconciliation issues between subsystems (MMIS & CAPS) and the primary accounting system	N/A	1	98-99	
Various	Medicaid Cluster 93.775, 93.777 and 93.778 Foster Care - Title IV-E 93.658 Child Support Enforcement 93.563	2-27	Risk analysis for automated data processing system	N/A	1	00-01	
Various	Medical Assit. Program 93.778 State Survey 93.777 TANF 93.558 Food Stamps 10.551 Child Care & Develop. 93.575	2-44	Not utilizing internal control reports produced by TEAMIS	N/A	1	00-01	
Various	Special Programs for the Aging - Title III, Part B 93.044 Special Programs for the Aging - Title III, Part C 93.045	2-36	Non compliance with funding formula allocations to Area Agencies on Aging	N/A	1	00-01	
Various	U.S. Department of Health and Human Services Various CFDA#s	2-28	Not checking suspension and debarment status	N/A	1	00-01	
Various	Special Programs for the Aging - Title III, Part B 93.044 Special Programs for the Aging - Title III, Part C 93.045	2-35	Not all residents of long-term care facilities having access to regular visits from a Certified Local Ombudsmen	N/A	1	00-01	
Various	Aging Cluster 93.044 93.045 Foster Care Title IV-E 93.658	10-2	CAPS (a subsystem) does not report all service provider activity	N/A	1	98-99	
Various	93.775, 93.777, 93.778 Medicaid Cluster	2-23	HCFA reporting of overpayments	N/A	1	00-01	

Category of Corrective Action Taken
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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2003

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.558	Temporary Assistance for Needy Families (TANF)	2-30	Not verifying participant income in the TANF program	N/A	1	00-01	
93.560	Family Support Payments to States - Assistance Payments	3-1	Incorrect assistance payments	\$8,614	1	96-97	
93.560	Family Support Payments to States - Assistance Payments	13-9	Unreconciled child support payment systems	N/A	1	96-97	
93.563	Child Support Enforcement	2-26	Invalid identification numbers	N/A	1	00-01	
93.563	Child Support Enforcement	2-31	Lack of medical support documentation	N/A	1	00-01	
93.563	Child Support Enforcement	2-32	Non interfacing between the two department computer systems	N/A	2	00-01	The DPHHS is working diligently to complete a review of all available financial data. Upon completion of the review an adjusting journal to bring the two systems into balance will be completed. A daily reconciliation procedure has been implemented to ensure future imbalances are detected and resolved timely.
93.563	Child Support Enforcement	2-33	Untimely child support distributions	N/A	1	00-01	
93.568	Foster Care - Title IV-E	10-9	Inadequate reconciliation procedures from CAPS to state accounting system	N/A	1	96-97	
93.568	Foster Care - Title IV-E	13-6	Ineffective procedures for accounting computer system reconciliation	N/A	1	96-97	

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2003

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.658	Foster Care Title IV-E	10-14	Inadequate policies and procedures to ensure timely reconciliations between trust accounts and accounting records.	N/A	2	98-99	The DPPHS is working diligently to complete timely reconciliations.
93.658	Foster Care Title IV-E	10-2	Inappropriate production & data access to CAPS system	N/A	1	96-97	
93.658	Foster Care Title IV-E	10-4	Inadequate procedures related to review & correct data entry process errors	N/A	1	96-97	
93.667	Social Services Block Grant (SSBG)	2-34	Financial data reported to HHS not supported by the accounting records	N/A	1	00-01	
93.775	State Medicaid Fraud Control Units	2-37	Approval to spend program income	N/A	1	00-01	Upon receiving future program income, the Department of Justice (DOJ) will deposit the funds in an interest bearing account. This account has been established with the Board of Investments. DOJ is working with the Department of Administration to return the \$3,200 of lost interest earnings from the general fund to the federal fund. Federal approval has been received to spend the interest earnings.
93.775	State Medicaid Fraud Control Units	2-38	Inconsistent cash draws	N/A	2	00-01	Cash draws will be done on a monthly basis at a minimum and will be done in compliance with federal regulations.
93.775	State Medicaid Fraud Control Units	2-39	Inappropriate allocation of travel expenditures	~\$600	1	00-01	The Department of Justice has revised travel cost allocation procedures to ensure compliance with the grant. The federal government has decreased the grant award for funding by \$381 for the travel cost violation.
93.959	Block Grants for Prevention and Treatment of Substance Abuse	2-24	Working capital advances	N/A	1	00-01	

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STATE OF MONTANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2003

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.959	Block Grants for Prevention and Treatment of Substance Abuse	2-29	No documentation related to grant expenditures by grant year	N/A	1	00-01	

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